

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 26 APR 2023

DAY:
Wednesday

OF

TABLED

Hon. Naomi Wago, Deputy
Majority Whip

THE AUDITOR-GENERAL

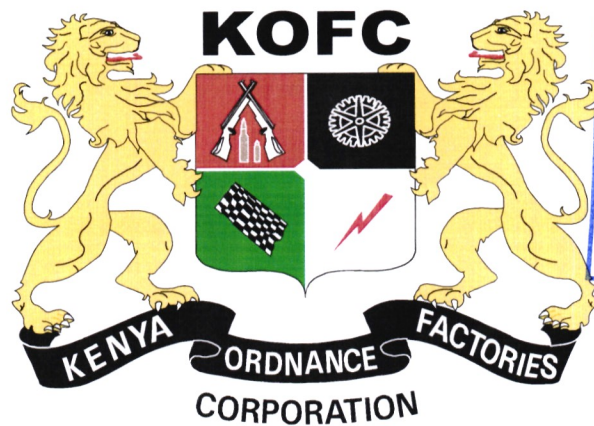
PRESENT AT
THE TABLE:

Finlay MURUKI

ON

**KENYA ORDNANCE FACTORIES
CORPORATION**

**FOR THE YEAR ENDED
30 JUNE, 2022**



KENYA ORDNANCE FACTORIES CORPORATION

**ANNUAL REPORT AND FINANCIAL
STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2022**

Prepared in accordance with accrual basis of Accounting Method Under
International Financial Reporting Standards (IFRS)

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

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I. KEY ENTITY INFORMATION AND MANAGEMENT

**a. Background Information
Incorporation**

The Kenya Ordnance Factories Corporation (KOFC) was established as a State Corporation in July 1997. The Corporation was exempted from the provision of the State Corporation Act (CAP 446) vide the legal Notice No. 522 of the 28th October 1997. However, no gazettment was done to this effect during the changeover to a State Corporation from RTS Ngano Farm Project.

KOFC is a licensed ammunition dealer and water undertaker.

b. Principal Activities

The Corporation principle activities are to:

- a. Manufacture military hardware, machinery and equipment;
- b. Produce defense articles;
- c. Manufacture apparels;
- d. Assemble and manufacture motor vehicles
- e. Construct roads, water pans, buildings and other structures and carry out food processing.

The Corporation also engages in other activities normally connected with and incidental to the object stated above as the Board may, with approval of the president determine.

c. Mandate

The mandate of the Corporation is to:

- a. Manufacture Military Hardware, Machinery and equipment
- b. Produce defense articles
- c. Manufacture apparels
- d. Assemble and manufacture motor vehicles
- e. Construct roads, water pans, buildings and other structures and carry out food processing.

The Corporation may engage in other activities normally connected with and incidental to the object stated above as the Board may, with approval of the president, determine.

d. Vision

The vision of the Corporation is to become a premier manufacturer of world class Military hardware and related products.

e. Mission

The mission of KOFC is to enhance National Security through guaranteed production of quality small arms ammunition and related auxiliary products.

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f. Objectives

KOFC has established its objectives as follows;

- a. Self-sufficiency in supply of small arms ammunition
- b. Transfer of relevant technology
- c. Sale of surplus ammunition to friendly countries
- d. Create employment in line with Vision 2030
- e. Enhance Industrialization in line with vision 2030.
- f. Diversification. (Production of dehydrated vegetables, bakery products, Farming, Milling of Maize and purified bottled water).

ISO Certification

KOFC is ISO 9001-2008 CERTIFIED. The certificates registration number KEBS/QMS/RF/036 Rev. 02 was re issued by the Kenya Bureau of Standards on the 07th June 2016 which expired on 14 September 2018. Training and documentation on the most recent ISO certification is ongoing.

g. Key Management

The Kenya Ordnance Factories Corporation day to day management is under the following key organs:

- i. Board of Directors
- ii. Managing Director
- iii. Management and
- iv. Special administrative units

h. Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2022 and who had direct fiduciary responsibility were:

| S/No. | Designation | Name |
|--------------|--|---------------------|
| (a) | (b) | (c) |
| i. | Managing Director | Maj Gen M K Ong'oyi |
| ii. | Deputy Managing Director | Brig M N Mwangi |
| iii. | General Manager | Col J M Thagana |
| iv. | Legal Advisor | Maj S N Kinga |
| v. | Procurement Manager | Lt Col CPA Nyong'o |
| vi. | Human Resources and Administration Manager | Lt Col Kipchirchir |
| vii. | Maintenance Manager | Lt Col H Kiprotich |
| viii. | Production Manager | Lt Col S Kipkoeki |
| ix. | General Manager Operations - FPF | Col V Mburu |
| x. | Finance and Administration Manager- FPF | Lt Col Nganga |
| xi. | Thika Plant Manager | Maj Mutiso |
| xii. | Quality Assurance Manager | Eng Leo K Kerich |
| xiii. | Commercial Services Manager | M/s M N Ochola |
| xiv. | Farm Manager | Mr M N Njogu |

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| | | |
|--------|---------------------------------|-----------------|
| xv. | Finance Manager | Mr D K Towett |
| xvi. | Ag Chief Accountant | CPA Juma Judith |
| xvii. | Ag Security and Safety Manager | Maj W N Micha |
| xviii. | Production Manager – FPF | Maj N S Okaka |
| xix. | Maintenance Manager – FPF | Maj A N Alumasa |
| xx. | Quality Assurance Manager – FPF | Maj J O Ochieng |
| xxi. | Plant Manager – Gilgil Bakery | Capt B N Osumo |
| xxii. | Plant Manager – MAB Bakery | Maj F N Kwemboi |

i. Fiduciary Oversight Arrangements

Board Committees

The Board carries out certain aspects of its duties by delegation to the Board Committees. These committees meet for scheduled meetings and on occasions where business of special nature has to be conducted. The committees operate under Terms of Reference approved by the Board and their duties are limited to the operations of the Corporation.

At present, there are three Board Committees; Audit and Risk Committee, Strategic Committee and Finance and General-Purpose Committee.

The roles of the above Board committees are as below:

Audit and Risk Committee:

- i. Reviewing quarterly, half-year and annual financial statements before submission to the Board of Directors;
- ii. Assessing the qualifications and recommending engagement of external auditors and their audit fees;
- iii. Reviewing the performance, objectivity and independence of external auditors,
- iv. Consideration of audit findings by the external auditors,
- v. Monitor and review the effectiveness of the Corporation’s internal audit function,
- vi. Reviewing the Company’s internal control and risk management systems and
- vii. Ensuring adherence to the Code of Ethics and Integrity in financial transactions of the Corporation.

Strategic Committee:

- i. Advising the Board of Directors on strategies to enhance performance of the Corporation,
- ii. Reviewing the five-year Corporate Strategic Plan, corporate budget and overseeing the annual implementation of the Corporation’s strategy,

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- iii. Monitoring major projects under implementation, directing strategies for improving customer service,

Finance & General Purpose Committee:

- i. Overseeing the Corporation's financial management,
- ii. Appointment, promotion and disciplinary issues of senior staff,
- iii. Developing Remuneration structure for the staff,
- iv. Reviewing performance of the staff pension scheme,
- v. Reviewing the corporate organizational structure
- vi. Aligning of Human Resource initiatives and actions to support business and
- vii. Handling Disciplinary issues involving senior management staff.

j. Registered Office and Principal Place of Business

Kenya Ordnance Factories Corporation (KOFc)
Rts Ngano Project
Kitale Eldoret Road
P. O. Box 6634 - 30100 - Eldoret

g. Contacts

Email: fm@kofc.co.ke, info@kofc.co.ke
Website: www.kofc.co.ke
Tel: +254 722 209639 and +254 773 589 481

h. Bankers

Co-operative Bank of Kenya
Eldoret Branch
P. O. Box 2948 - 30100 - Eldoret
Kenya

Kenya Commercial Bank
Uganda Road Branch
P. O. Box 5197 - 30100 - Eldoret
Kenya

Equity Bank of Kenya
Eldoret Branch
P.O. Box 2201 - 30100 - Eldoret
Kenya

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National Bank of Kenya
Eldoret Branch
P.O. Box 2201 - 30100 - Eldoret
Kenya

i. Independent Auditors

The Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P. O. Box 30084 - Nairobi
Kenya.

j. Principle Legal Advisers

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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II. BOARD OF DIRECTORS

The Directors who held office during the year to the date of the report were: -



General (Dr) R K Kibochi
Chairman



Lt Gen W R Koipaton
Director



Maj Gen J M Omenda
Director



Maj Gen J L Mutai
Director



Dr Ibrahim M Mohammed
Principal Secretary MoD



Brig (Rtd) J N Muiruri
Director



Brig (Rtd) P T Ibeere
Director

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Brig (Rtd) D C Bartonjo
Director



Mr S M Macharia
Alternate Director



Dr J Muia
PS National Treasury



Maj Gen M K Ong'oyi
Managing Director

Directors who left during the year were:



Lt Gen F O Ogolla



Maj Gen (Rtd) M O Oyugi



Maj Gen (Rtd) P O Awitta

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Maj Gen (Rtd) H M Tangai



Maj Gen S M Manambo

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III. MANAGEMENT TEAM

The managers who held office during the year to the date of report were:



Maj Gen M K Ong'oyi
Managing Director



Brig M N Mwangi
Deputy Managing



Col J M Thagana
General Manager



Lt Col C P A Nyongo
Procurement Manager



Lt Col H Kiprotich
Maintenance Manager



Lt Col S Kipkekei
Production Manager



Lt Col S M Nganga
General Manager FPF

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Lt Col V Mburu
General Manager Operation
FPF(Now Col) FPF



Maj D N Mutiso
Thika Plant Manager



Mr L K Kerich
Quality Assurance Manager



Ms M N Ochola
Commercial Services Manager



Mr. D K Towett
Finance Manager



Maj W N Micha
Ag Security and Safety Manager



Maj N S Okaka
Production Manager FPF



Maj A M Alumasa
Maintenance Manager FPF



Maj J O Ochieng
Quality Assurance Manager FPF



Capt B N Osumo
Plant Manager-Gilgil Bakery
Bakery



Mr. M N Njogu
Farm Manager



Maj F N Kwemboi
Plant Manager-MAB

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Maj S N Kinga
Legal Officer/Corporation
Secretary



CPA Juma Judith
Ag Chief Accountant

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IV. CHAIRMAN'S STATEMENT

I have great pleasure in presenting the Annual Report and Audited Accounts for the Kenya Ordnance Factories Corporation (KOFC) for the financial year 2021/2022. I wish to congratulate Maj Gen M K Ong'oyi on his appointment as the Managing Director. I also wish to congratulate and welcome the newly appointed Board members namely: Maj Gen J M Omenda, Brig (Rtd) J N Muiruri, Brig (Rtd) I P Ibeere and Brig (Rtd) D C Bartonjo, your appointment is critical because your expertise and experience input will be of great essence in steering the corporation mandate efficiently. KOFC plays a critical role in ensuring a reliable source of ammunition and military equipment to Kenya Defence Forces and other government security agencies. There is need to revitalize KOFC in order to enhance its capability to generate sufficient resources.

KOFC is one of the factories placed under the Management of Ministry of Defence and as such the National Defence Security Industries will play a critical role in ensuring that there is proper coordination and efficient management. KOFC has had challenges since its inception and as such there is need to re-configure its operations. The National Security Council has approved the incorporation of the FPF into a limited Company to take over the mandate of food production and processing from KOFC. The Directors will play a key role at the Committee level in providing strategic guidance that will enhance corporate governance of the Factory. There has been a delay in the implementation of the Contract for the installation of new ammo production line due to late conclusion of the Financial Framework Agreement. However, the subject Agreement is now in place and the process of procurement of the lines will proceed as planned. The new production line is a turnkey project and the management should ensure that the personnel who will be given the responsibility to operate it have the requisite technical skills. The Board has not been able to meet as regularly as required by Mwongozo Code due to exigencies of service, however the Board will endeavour to meet as often as the circumstances dictates. There is need to re-constitute the Board in order to ensure that there is inclusion of experts and that gender parity requirement is complied with. Three additional directors with requisite skills shall be appointed before the next Board meeting. The Corporation has great potential to produce ammo and military hardware if it is transformed and charted in the right course.

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On behalf of the Board of Directors, I would like to recognize our customers, consumers, business partners as well as the governments of the respective countries we partner with for your continued support. We also wish to thank our management and employees for their continued agility and resilience through the crisis. They have demonstrated deep commitment to this course, and I have no doubt that, with their continued efforts, we will emerge stronger and successful in the long run. I would also like to sincerely thank my fellow Board members for their counsel, support and dedication throughout the year and for delivering strongly.

I urge my fellow Board Members to work zealously in the best interest of the Corporation.
Thank you.

GENERAL (DR) K KIBOCHI EGH, CBS 'ndc' (K) 'psc' (UK), (PhD)

Chairman, Board of Directors

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V. REPORT OF THE MANAGING DIRECTOR

The Corporation continues to undertake vital production activities that underwrite KDF's ability to be 'Mission Ready'. However, overall performance is still weighed down by challenges related to diminished ammunition production levels from existing lines and shortage of production raw materials and tools. Efforts to address the limited production capacity are being addressed through funding of the Farm Mechanization Programme. FPF financial status is still weak, but its activities are being streamlined by reducing the high cost of inputs, strengthening of management performance and minimizing wastage of materials in all stages of production. Pending bills have been addressed except those awaiting availability of budget. Nevertheless, necessary process is in progress to resolve and finalize the payments.

The year 2021/2022 was characterized by a tough economic environment due to drastic rise of the cost of raw materials and fuels, thus leading to high production cost. This had a negative impact on the Corporation which resulted into decreased or disrupted production and supplies during the year. Despite this challenge, the Corporation has strived to be innovative and engaged its suppliers in order to ensure it continues to meet its customers' demand. Kenya Ordnance Factories Corporation is a strategic installation that plays a key role in enhancing National Security and contributes significantly to the Big Four Agenda especially in Manufacturing and National Food and Nutrition Security. The management has been concentrating in operations in Eldoret and Gilgil. Efforts are being made to address issues of the Food Processing Factory to make itself sustaining that does not depend on the Ministry of Defence for financial support.

The Corporation is cognizant of and appreciates efforts by the Government to address ammunition production challenges through acquisition and installation of new production lines which are at an advanced stage.

Despite the many challenges now inherent in this operating environment, the Corporation continued to discharge its mandate to manufacture Military Hardware, Machinery and Equipment and engaging in other activities normally connected with the incidental to the said object. In the year 2021/2022, the Corporation generated revenue from goods and services amounting to Kshs 1,153,601,484.00 compared to the previous year 2020/2021 generation of Kshs 1,092,675.34. The funds have gone a long way in funding both budgeted recurrent and capital expenditure.

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The National Treasury and Planning through the Ministry of Defence in financial year 2021/2022 allocated the Corporation a recurrent and capitation grant of KShs 135,000,000.00 and Kshs 100,000,000.00 of the ongoing farm mechanization program in line with the Big Four Agenda.

During the year under review, the Corporation had all the Board of Directors on Board and therefore there was full quorum in all meetings. The Board of Directors with the support of the Managing Director and the entire management team, were able to continue running KOFC, s operations successfully despite the challenges. The KOFC management is continuing with the execution of FY 2015/16 – FY 2024/25 revised strategic plan aimed at turning around the operations of the Corporation. To sustain our growth, and continue supporting the Security Agencies requirements, concerted efforts are being put in place to address production issues relating to the existing production line. With our well-equipped workforce coupled with higher capacity production line, KOFC is well positioned to deliver on purpose and continue to fully and competitively provide the security agencies. The management is confident that this plan will assure strategic growth and improved returns and profits.

I conclude by sincerely thanking all those who supported the Corporation in financial year 2021\2022 including the customers, the Government of Kenya represented by the Ministry of Defence, National Treasury & Planning and all other stake holders. I wish to thank the Board of Directors for their uttermost support during the year. God Bless.



MAJOR GENERAL M K ONG'OYI

CBS, 'ndc' 'psc' (K)

Managing Director

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VI. STATEMENT OF KOFC PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2021/2022

The Kenya Ordnance Factories Corporation (KOFC) has in place a revised Strategic Plan (FY 2015/16 to FY 2024/25) anchored on the vision 2030, the 3rd Medium Term Plan (MTP III) and the Big Four Agenda among other policy documents. The Strategic Plan is aimed at steering the Corporation towards achievement of her Mission and Vision. The plan has the following Strategic/Pillars namely:

Operation Excellence;

Customer Service Excellence;

Business Growth;

Good Governance.

From the Strategic themes, the Corporation has identified the below mentioned objectives.

These are;

Increase capacity in production of Arms and Ammunition;

Increase engineering capacity to support ammunition production and act as a source of revenue;

Attain self-sufficiency in manufacture of apparels for all security agencies;

Attain self-sufficiency in combat supplies for security agencies;

Provide a safe environment;

Develop and retain a productive professional workforce;

The table below presents performance against set targets as per the revised Strategic Plan.

Objective 1. Increase Capacity in Production of Arms and Ammunition

| Strategy | Activities | Period | | Performance Indicator | Actor |
|---------------------------|-----------------------------------|-----------------|---|-----------------------|-------|
| | | 2015/16-2018/19 | 2019/20 – 2022/2023 | | |
| Enhancement of Production | Removal of Production Chock Point | Allocated Funds | Acquired Ballistic Analyzer and Gauging Machine | Two machines acquired | KOFC |

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| | | | | | |
|----------|---|---|---|-------------------------|------|
| Capacity | Upgrade and Modernization of the Production Lines | Conducted In-depth Analysis | Acquired case gauging machine | One machine acquired | KOFC |
| | Manufacture of small arms | | Allocation of funds | Number of Arms Produced | KOFC |
| | Maintain a two year Buffer Stock of Raw Materials | Allocated funds and procured Brass, Primers, Powder and Copper Clad | procured Brass, Primers, Powder and Copper Clad | Increased stock levels | KOFC |

Objective 2. Increase Engineering Capacity to support Ammunition Production and act as a source of income.

| Strategy | Activities | Period | | Performance Indicator | Actor |
|--|---|----------------------------|--------------------------|--|----------------------------|
| Expand the General Engineering Capability. | Production of tools and spares o | 2015/16-2018/19 | 2019/20 – 2022/2023 | One machines acquired | KOFC |
| | support ammo production | Allocated Funds | | | |
| | Modernization of Machines | Acquired Spectrophotometer | | Procurement of Profile Projector ongoing | Acquisition of one machine |
| | Assembly, repair and rehabilitation of small arms | Produced weapon spares | Rehabilitated small arms | Assorted weapons repaired | KOFC |

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| | | | | | |
|--|---|--|---|--|------|
| | Fabrication of General spare parts | Produced Agricultural and Industrial spares | Produced Agricultural and Industrial spares | Several numbers of spares produced | KOFC |
| | Establishment of Welding and fabrication shop | Fabricated soldier boxes and beds Acquired portable heavy duty machines | Fabricated soldier boxes and beds | Numbers of Soldier boxes, beds and boxes | KOFC |
| | Fabrication of DEFKITCH (K) 2012 | Allocated funds and improved DEFKITCH – (K) 2012 | Acquired Water Jet, Bending, Pressing and Polishing of machines | Four machines acquired | KOFC |

Objective 3. Attain self-sufficiency in manufacture of all Security Agencies.

| Strategy | Activities | Period | | Performance Indicator | Actor |
|---|--|-----------------|---------------------|-----------------------|-------|
| | | 2015/16-2018/19 | 2019/20 – 2022/2023 | | |
| Introduction of Apparel Production Line | Establishment of Apparel Production Line | - | Sourcing of funds | Garments produced | KOFC |

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Objective 4. Attain self-sufficiency in Combat Supplies (Ration) for Security Agencies

| Strategy | Activities | Period | | Performance Indicator | Actor |
|---|---|--|--------------------------------|------------------------------------|-------|
| | | 2015/16-2018/19 | 2019/20 – 2022/2023 | | |
| Introduction and enhancement of Ration Production | Bakery and Confectionaries | Feasibility done Constructed Hanger at MAB Acquired Mixer, Moulder, Divider, Weighing Machines, ovens and prover | Full Production | Assorted Bread products produced | KOFC |
| | Maize Milling | Established second line Produced KDF maize flour | Produced KDF maize flour | KDF maize flour produced | KOFC |
| | Animal Feed Production | Produced animal feeds | Produced animal feeds | Animal feeds produced | KOFC |
| | Water Bottling | Acquired labelling machine Produced bottled water | Produced bottle water | Quantity of bottled water produced | KOFC |
| | Dehydration of Vegetables and Processing of | Constructed Hanger Acquired of | Dehydrated assorted vegetables | Quantity of Assorted vegetables | KOFC |

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| | | | | | |
|--|--------|--|--|--|--|
| | fruits | washing, blanching, drying, peeling, dicing, cutting, bin dryers, and packing Machines Dehydrated assorted vegetables | | | |
|--|--------|--|--|--|--|

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VII. CORPORATE GOVERNANCE STATEMENT

The Kenya Ordnance Factories Corporation Board of Directors embraces principles of good corporate governance in steering the Corporation to effectively achieve its mandate for sustainable growth in Government and its stakeholder's expectations. As a Semi-Autonomous Government Agency (SAGA) under the Ministry of Defence, the Corporation remains steadfast in complying with statutory and regulatory requirements as outlined in the Constitution, the State Corporations Act, Mwongozo Code of Governance and other applicable regulations.

Besides complying with the Code, the Board has committed to embed internal rules of engagement to support corporate governance. These internal guidelines are constituted in the Code of Conduct and Ethics to which every Director and employee attests their adherence.

Board of Directors

The Board is collectively responsible for the overall direction of the Corporation with oversight and review of the management, administration and overall governance. The Board exercises its oversight role by setting appropriate business strategy and overseeing delivery against the set objectives. The Board currently consists of nine (9) directors, one (1) Managing Director and including the Chairman, of whom three (3) are independent directors. Committee guided by the Board Appointment Guidelines duly approved by the Board. The Chief Executive Officer is by appointments by the Defence Council and their terms are dictated by the same.

Board Operations

The Board has in place an annual programme that sets out the Board activities for the year. This enables the Board to have a detailed review of the Corporation's operation's and strategy, approve business plans, budgets and financial statements. The Board meets at least four times a year and additionally as may be necessary. The Board Chairman, in conjunction with the Managing Director, sets the agenda for each meeting. The Board receives all information relevant to the discharge of its obligations in accurate and timely manner enabling it to maintain effective control over strategic, financial, operational and compliance

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issues. As provided in the Board Charter, the Board is entitled to seek independent professional advice at the Corporation's expense on any matter connected with the discharge of its responsibilities

Board Charter

The Board has adopted a Board Charter that provides a framework for the effective operation of the Board, which sets out the: Board's roles, composition and responsibilities; Relationship and interaction between the Board and Management; and Authority delegated by the Board to Management & Committees.

Board of Directors Responsibilities

The Board is responsible for ensuring that the business is financially viable and properly managed so as to protect and enhance the Corporation's interest over time. To achieve continued prosperity for the Corporation, the Board exercises leadership, enterprise, integrity and good judgement and shall always act in the best interest of the Corporation. The following are the roles and responsibilities of the Board:

- a. Provide effective leadership and collaborate with the Management in articulating the institution's values, vision, mission and strategies and developing the strategic plan and ordering strategic priorities of the Corporation that are sustainable.
- b. Develop an organizational structure to support the achievement of strategic objectives; monitor the operational performance and establish policies and processes that ensure the integrity of the Corporation internal controls and risk management.
- c. Review and approve the business plans and annual budget proposed by the Executive Management and evaluate the outcomes thereof.
- d. Establish such Committees, Policies and Procedures that will facilitate effective discharge of the Board's fiduciary and leadership functions.
- e. Establish and oversee the Corporation corporate governance framework that promotes standards of ethical behavior.

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- f. Ensure the Corporation's compliance with all applicable laws, regulations, governance codes, guidelines and regulations and establish systems to effectively monitor and control compliance across the Corporation.
- g. Ensure that systems and procedures are in place for the Corporation to run effectively and efficiently.
- h. Establish appropriate staffing and remuneration policies for all employees. Act in the best interest of the Corporation and its business taking into consideration the interest of the stakeholders.
- i. Ensure that the Corporation is, and is seen to be, a responsible corporate citizen by having regard to not only the financial aspects of the business of the Corporation, but also the impact the business operations have on the environment and the society within which it operates.

The Board has a schedule of its meetings and the agenda for each Board meeting is prepared and circulated to members at least seven (7) days in advance. Board meetings are held every quarter and in exceptional circumstances as dictated by requirements of its operations. Meetings are structured in a way that allows open discussions. Due to exigencies during the year ended 30th June 2022, a total of two (2) Board meetings were held.

Board Skills and Diversity

The Corporation seeks to have a Board that has a diverse mix of individuals with relevant attributes, skills, knowledge and experience. The Board has the appropriate mix of skills, knowledge and experience to deal with current and emerging issues and effectively guide the management in attainment of its strategic objectives.

The Board promotes diversity and encourages initiatives to improve gender parity in management.

Board Induction and Development

All newly engaged Directors receive a comprehensive induction programme to acquaint them with their responsibilities as well as keep them abreast of the Corporation's strategy and operations. The induction program consists of detailed presentations and briefings from the Executive Management and the Company Secretary on Corporation operations.

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The Board members are required to undergo regular training and bench marking to enable them to discharge their responsibilities effectively. Members receive regular briefings from the executive management on developments in the media industry, both locally and globally. The Board is also apprised of regulatory changes that directly impact on the operations of the Corporation. The Board previously underwent training on areas of Corporate Governance as prescribed by the Mwongozo Code of Conduct.

Board Evaluation

In line with the provisions of the Mwongozo Code, the Board reviews its performance and that of its Committees, and the Directors, the Chairman and Company Secretary, on an annual basis. The Evaluation is facilitated internally once every two years. The evaluation is conducted by each Director completing a Board Evaluation Form which is designed to obtain feedback on the Board's performance in key thematic areas. The Evaluation also seeks to identify development opportunities and areas of improvement. Results are collated confidentially by the Company Secretary and reviewed by the Chairman. The evaluation ensures that the Board continues to be effective. The last evaluation observed that Board members have a good understanding of the business and receive the information they need to inform decisions.

Board Independence and Conflicts of Interest

The Board comprises of seven (9) non-executive directors, of whom three (3) are independent. The Board of Directors are free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the directors' capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Corporation. The directors are obligated to fully disclose to the Board any real or potential conflict of interest, which comes to the directors' attention, whether direct or indirect. All business transactions with all parties, directors or their related parties are carried out at arm's length. Directors are required to give advance notice of any conflict issues to the Chairman or Company Secretary. The Board maintains a Conflict of Interest register and this is tabled as the first agenda item of all Board meetings. Directors are excluded from the quorum and vote in respect of any matters in which they have an Interest.

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VIII. MANAGEMENT DISCUSSIONS AND ANALYSIS

Core Mandate of the Corporation

Despite the many challenges inherent in this operating environment, the Corporation continued to discharge its mandate to manufacture Military Hardware, Machinery and Equipment and engaging in other activities normally connected with the incidental to the said object.

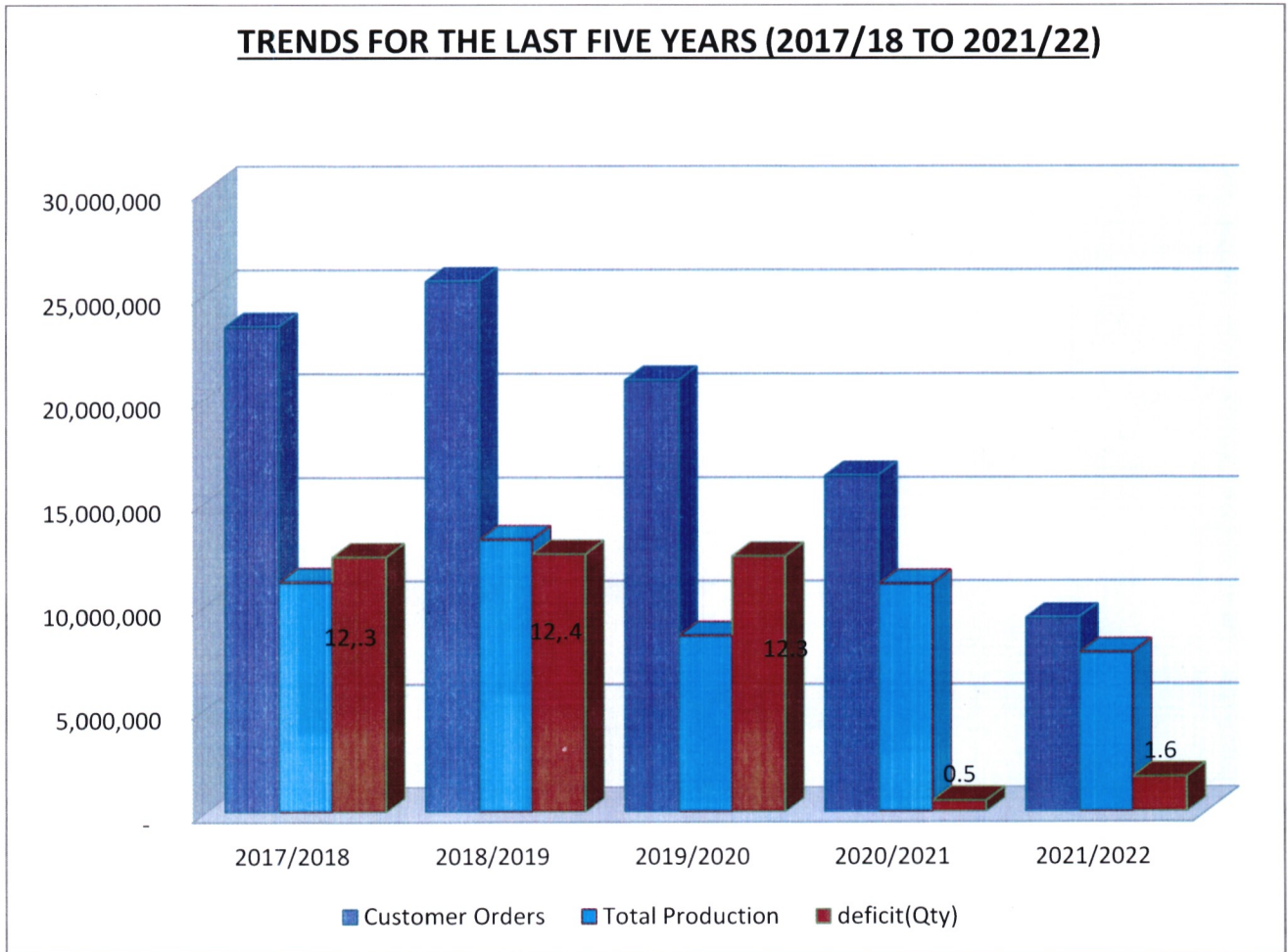
Operation

Ammunition Production installed capacity lines were commissioned way back in mid-80's and projected to produce 20 million rounds in a single shift which translated to a production output of quantity 16 million at 80% efficiency. The machines reached their Out of Service Dates (OSD) on attaining 20 years of service in the FY 2016/17. Ammunition production machines have been characterized by frequent breakdowns caused by old age and obsolescence which hampered prompt repairs. Mitigating measures towards addressing these challenges include establishment of new ammunition production lines with high capacities which is currently at an advanced stage.

Over the last five years, production has been decreasing as customer's demand increases.

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The table below illustrates how the production has been going down over a period of time.



Financial Performance

The Corporation continues to undertake its vital production activities as mandated. Its overall financial performance to date is nonetheless still weighed down by challenges related to reduced ammunition production levels from existing lines and high costs of procuring production of raw materials and tools.. Likewise, improved farm production is being addressed through funding of the Mechanization Programme.

Food Processing Factory financial status is fairly weak but its activities have been streamlined. Tabulated below is the Corporation Financial Performance for the past five years' period:

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| Years (Audited) | | | | |
|-----------------|-------------|-------------|-------------|------------|
| 2020/2021 | 2019/2020 | 2018/2019 | 2017/2018 | 2016/2017 |
| 445,559,893 | 191,632,846 | 515,535,062 | 258,698,444 | 79,833,447 |
| Surplus | Deficit | Loss | Loss | Surplus |

Revenue

Revenue generated over the past five years is as tabulated below:

| | 2020/2021 | 2019/2020 | 2018/2019 | 2017/2018 | 2016/2017 |
|--------|-------------|-------------|-------------|-------------|-------------|
| Ammo | 651,672,161 | 695,835,135 | 590,915,553 | 725,760,902 | 725,285,941 |
| Farm | 138,310,537 | 77,839,634 | 97,413,266 | 103,200,106 | 145,889,250 |
| Others | 299,686,221 | 260,456,244 | 337,179,757 | 234,301,130 | 230,595,493 |

KShs 1,153,601,484.14 was generated during the year (FY 2021/2022) under review against a set target of **Kshs ,1,272,960,630** leading to a variance of Kshs – **119,359,145.86** as detailed below.

| S/No | Item Description | Target Amount (KShs) | Achieved Amount (KShs) | Variance (KShs) |
|------|--|----------------------|-------------------------|-------------------------|
| 1 | Security Products | 858,482,000.00 | 604,021,182.00 | (254,460,818.00) |
| 2 | Bakery sales | 133,967,302.00 | 197,270,915.00 | 63,303,613.00 |
| 3 | General Engineering and DEFKITCH Sales | 16,064,196.00 | 7,194,701.00 | (8,869,495.00) |
| 4 | Farm and Milling Sales | 102,141,117.00 | 148,214,307.00 | 46,073,190.00 |
| 5 | KDF Bottled Water | 75,000,000.00 | 78,247,157.00 | 3,247,157.00 |
| 6 | Piped Water Sales | 4,800,000.00 | 10,283,760.14 | 5,483,760.14 |
| 7 | KDF Food Processing Factory | 79,206,015.00 | 100,705,332.00 | 21,499,317.00 |
| 8 | Interest Income | 3,000,000.00 | 7,301,192.00 | 4,301,192.00 |
| 9 | Fees and Fines | 0.00 | 169,500.00 | 169,500.00 |
| 10 | Disposal | 300,000.00 | 193,438.00 | (106,500.00) |
| | Total | 1,272,960,630 | 1,153,601,484.14 | (119,359,145.86) |

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(a).Major Risks Facing the Corporation

Technology changes,
Non availability of raw materials and Long Lead,
Mind set on locally produced goods,
Erratic Weather (Climate Change).

(b).Performance Contract Implementation Financial Year 2021/2022

The purpose of the Performance Contracts (PC) is to provide an objective assessment of results realized and challenges experienced by the Corporation that impair performance. The objectives of the Performance Contract (PC) were drawn from the Kenya Ordnance Factories Corporation Strategic Plan and anchored on the Kenya Vision 2030, the Medium Term Plan (MTP) II) and the Sector Performance Standards (SPS). The Corporations PC FY 2021/2022 was negotiated with the Ministry of Defence, Board of Directors and the Managing Director cascaded it to all relevant implementation departments of the Corporation.

(c).Capital Projects

Ammunition Production installed capacity lines were commissioned way back in mid-80's and projected to produce 20 million rounds in a single shift which translated to a production output of quantity 16 million at 80% efficiency. The machines reached their Out of Service Date (OSD) on attaining 20 years of service in the FY 2016/17. Ammunition Production Machines have been characterized by frequent breakdowns caused by old age and obsolescence which hampered prompt repairs. Mitigating measures towards addressing these challenges include establishment of modern ammunition production lines with high capacities which is currently at an advanced stage. Acquisition and operationalization of new production lines will in the long run restore KOFC to financial stability and prosperity.

In order to enhance farm production and minimize outsourcing of farm services, the Corporation has continued to invest in farm machinery and equipment. During the year under review, the Ministry of Defence allocated Ksh 100M out of the requested Ksh 500M for KOFC farm mechanization. The funds were utilized to procure quantity two Agricultural

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Tractors at a cost of Kshs 23,600,000, Head Trailer at Kshs 945,980, three Agricultural Trailers at Kshs 12,097,350 and a Disc Harrow costing Kshs 3,950,000.

In addition, the installation of a quantity 3000MT automated grain storage silo is in the final stages and so far a total Kshs 26,319,064.00 has been paid.

(d). KOFC Compliance with Statutory Requirements

The Corporation complied with all mandatory statutory requirements from remittance of statutory deductions within the set time line to holding of Board meetings.

(e). Material arrears in statutory and other financial obligations

As at the close of the financial year, the Corporation did not have any material statutory arrears.

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IX. ENVIROMENTAL AND SUSTAINABILITY REPORTING

i) Sustainability Strategy and Profile

The re-organization of KOFC operations is aimed at re-aligning its strategic plan to meet its expanded mandate as set out in Legal Notice No. 2 (Amendment Order) of 19th December 2020 and the National Security Industrialization Policy Implementation Strategy. The revised Legal Notice mandates the Corporation to manufacture hardware machinery and equipment, produce defence articles, manufacture apparels, assemble and manufacture motor vehicles, construct roads, water pans, buildings and other structures and carry out Food Processing. Towards this end, revision of Strategic Plan, development of Implementation Matrix and determination of resource requirements is clearly set out.

The proposed implementation in the short term aims at increasing ammunition production capacity to meet the National security requirement and attain new capability and flexibility to meet the emerging requirements due to change of weapon choice. Critical also is the need to complete Phase II and III of Food Processing Factory in-order to supply packaged MREs as required within the stipulated timelines. This will in-turn is a milestone towards achieving self-reliance in defense combat supplies to KDF and other Security Agencies, both nationally and in the entire region as enshrined in East Africa Working Group (EAWG) on cooperation on shared resources. The outcome of such targeted investments will be a secure nation and a self-reliant defense. The key beneficiaries of this project are the Citizens of Kenya, Security Agencies and the Region at large.

ii) Environment Performance

The Corporation under FY 2021 /2022 planted quantity 39,000 of seedlings of various species of indigenous trees covering 259 acres of land.

The efforts have faced many challenges mostly attributed to climate change and acceptability by the neighbouring communities who tend to uproot most of the seedlings planted.

However, the Corporation has continued to engage the locals in the tree planting activities to improve on their acceptability to the activities.

The Corporation is Waste Management Policy deals with issues relating to waste on land, defining all aspects of waste management through industrial processing activities aimed at producing useful and safe products through; reducing, reusing, recycling, or composting waste; by doing this, it will increase the value of waste over time to the Kenyan economy. Waste is a resource that can be managed to achieve economic, social and environmental benefits. Addressing the waste management challenge effectively at KOFC is critical to

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delivering on Kenya's constitutional right to a clean and healthy environment for all, advancing the circular economy to create green jobs and wealth from the waste sector, and advancing the nation's sustainable development goals.

Types of Solid Waste Management at KOFC

Hazardous wastes

Industrial wastes

Bio-Medical wastes

Environmental benefits of proper waste management:

Proper waste removal helps improve air and water quality as well as reduces greenhouse gas emissions;

It helps in minimising the extraction of resources along with reducing pollution and energy consumption which is associated with manufacturing new materials;

Promotes health and sanitation;

Reduces pest infestation;

Protects you from biohazards;

Improves community health;

Protects the environment;

Ensures physical safety;

Adds to waste energy;

Earns money.

Sustainable waste management is also fundamental to delivery of each of the government's "Big Four" national priorities. The main advantage of sustainable waste management is to lessen the impact on the environment, by improving air and water quality and contributing to the reduction of greenhouse gas emissions. Besides, reducing food waste also helps reduce the heavy environmental cost of producing more.

Most sustainable waste management;

Recycling saves energy, helps keep materials out of landfills and incinerators, and provides raw materials for the production of new products. When waste cannot be prevented, recycling is the next best option. Recycling is more than extending the life of landfills.

iii) Employee Welfare:

KOFC Hiring Process and Equity

The Corporation is fully aware that its efficiency depends on the quality of employees it engages. As stipulated under KOFC Staff Terms and Conditions of Service Manual, it's the

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Corporation's policy to attract and recruit candidates qualified in terms of academic, have the required experience/skills or who can be trained for effective work performance to achieve the Corporation's objectives.

KOFC is an equal opportunity employer and its recruitment does not discriminate on the basis of gender, age, race, and ethnicity or entertain any other form of discrimination. KOFC fully ensures compliance with the provisions of article 232 (h) and (i) of the COK, 2010.

All appointments are made with the approval of the Managing Director or Board of Directors as the case may be, and within the approved Staff Establishment

KOFC specific polices guideline in the hiring process are as follows:

The Corporation will strive to recruit and select the best-qualified candidates to Support its vision and mission.

- b. Equal opportunities shall be provided for all persons throughout the Corporation in recruitment, appointment, promotion, payment, training, and other employment practices without discrimination against people based on race ethnic, gender, disability, national origin, colour, religion, marital status, or political affiliation.
- c. Employees shall be correctly placed on the occupations that match their skills and abilities while taking cognizance of special needs.
- d. Recruitment of Employees shall be done as per the recruitment policy and procedures for all cadres of staff. Equity shall be exercised at all times.
- e. The recruitment and selection process should not take more than six (6) months.
- f. Appointments in all cases are made in accordance with the existing Job Descriptions and specifications for various cadres of staff in their respective fields of employment.

Stakeholder Engagements

In the hiring process, the Corporation ensures stakeholder engagement through media advertisement of vacant positions and selection to employment.

Skills Improvement and Career Management

The Corporation recognizes the need for training and development of all its employees. The Corporation therefore offers training opportunities to all deserving staff in order to equip them with the necessary skills to improve performance and career progression.

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Training and skill improvement programs are geared towards addressing identified staff performance gaps and ensure continued supply of relevant knowledge and skills to the Corporation.

Training Needs Assessment (TNA) is conducted on annual basis to determine if a training need exists and to identify the specific training required to fill the gap. The training requirements and programmes are factored in the annual budget.

Staff Performance Appraisal is a critical component of the human resource management function in the Corporation. The overall objective of the appraisal system is to manage and improve performance by enabling a higher level of staff participation and involvement in planning, delivery and evaluation of work performance.

The Staff Performance Appraisal is an annual exercise in the Corporation and assists the management in making critical decision on staff reward, promotion, deployment and training.

Safety and Compliance with Occupational Safety and Health Act 2007

Kenya Ordnance Factories Corporation (KOFC) is committed to the goal of providing and maintaining a healthy and safe working environment, with a view to continuous improvement. This goal is only achievable by adherence to established objectives striving to exceed all obligations under applicable legislation, and by fostering an enthusiastic commitment to health, safety and the environment within KOFC personnel, contractors and visitors. In particular:

Management, working in cooperation with the Health and Safety Committee, will strive to take all reasonable steps to reduce workplace hazards to as low as reasonably achievable.

Supervisors and managers are held accountable for the health and safety of all employees under their supervision. This includes responsibility for applicable training and instruction, appropriate follow-up on reported health and safety concerns, and implementation of

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recommended corrective action. This accountability is integrated into the performance appraisal system.

Supervisors, workers and visitors are expected to perform their duties and responsibilities in a safe and healthy manner, and are accountable for the health and safety of themselves and others.

KOFC is committed to providing all necessary training and instruction to ensure that appropriate work practices are followed on the job, and to promote their use off the job.

If necessary, KOFC will take disciplinary action where individuals fail to work in a healthy and safe manner, or do not comply with applicable legislation or corporate policies and procedures. Health, safety, the environment and loss control in the workplace are everyone's responsibility.

KOFC expects that everyone will join in our efforts to provide a healthy and safe working environment on a continuous day to day basis. Only through the dedication and efforts of all individuals can KOFC succeed in providing a healthy and safe working environment.

iv) Market Place Practice

a) Responsible Competition Practice

Kenya Ordnance Factories Corporation (KOFC) has put efforts towards the following in their day to day running of business:

- a. Anticorruption Policy: KOFC ensures that it systematically and comprehensively rewards for more responsible practices in business and penalizes for the converse.
- b. Apolitical involvement: KOFC being a security installation and does not involve itself to politics; it serves the government of the day.
- c. Fair competition and respect for competitors: KOFC has time and again maintained responsible ethics with their competitors by achieving competitive advantages through superior performance and not through unethical or illegal business practices. It insists on transparency other than making improper agreements with or colluding with competitors. To ensure that it has the competitive edge, it capitalizes on supply of quality products, timely delivery and keeping customer focus as the driving power.

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b) Responsible Supply Chain and Supplier Relations

Kenya Ordnance Factories Corporation Procurement Department processes are fair, equitable, transparent, competitive and cost-effective. It starts with budgeting and ends when the supplier is paid. The procurement processes are governed by Public Procurement and Asset Disposal Act, 2015 and Public Procurement and Asset Disposal Regulation 2020. The stages are:

- a. Budgeting
- b. Purchase Plan
- c. Identification of need, Specifications and Requisition
- d. Requisition Authorization
- e. Sourcing
- f. Tender Opening
- g. Tender Evaluation
- h. Contract Award
- i. Receipt & Acceptance, Quality Control, Recording and Storage
- k. Payment of Suppliers

To build a cordial supplier relationship, the department has;

- a. Effective Communication Channels - The department has effective communication channels where suppliers can be engaged to air out their concerns and feedback given promptly eg Office Emails and Telephone.
- b. Respect – The department demonstrate integrity and appreciate them for the value-add they provide to the organization. This helps to build trust and with that trust comes endless possibilities to increase performance through innovation and problem solving.
- c. Openness and fairness in procurement processes. This includes sharing information including tender results. Suppliers are notified on the tender results immediately the tendering process is finalized. and demonstrate willingness to work together to achieve the objectives of the agreement.
- d. Payment are done on first come first paid basis.

c) Responsible Marketing and Advertisement

KOFC has been practicing transparency, avoid false comparison, protection of consumer data and privacy, committing to sustainability and human rights, maximizing benefits and minimizing risks, no exaggeration of product attributes or price, responding meaningfully to

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consumer concerns, avoiding false unverified claims and being diligent in enforcing policies to maintain ethical marketing practices.

d) Product Stewardship

KOFC have put the following measures to safeguard consumer rights and interests:

- a. Right to safety: The Corporation ensures that the products sold to customers are of high quality and meet up the set standards.
- b. Right to choose: KOFC encourages its clients to be assured of satisfactory quality and service at a fair price.
- c. Right to seek redress: KOFC provides ways for customers to air their complains through the customer care office, suggestion boxes and a customer care remark book, through this their complains are adequately addressed.
- d. Consumer Protection Act: KOFC adheres to Customer Protection Act to ensure good services and relationship between the customer and the corporation.
- e. Right to consumer education: KOFC educates its consumers of its products and services to better equip them with the knowledge to ensure they are sufficiently informed.

Corporate Responsibility/Community Engagements

KOFC commitment to its stakeholders is to improve the quality of lives of the community surrounding its installations through Corporate Social Responsibilities. We take our social and environmental responsibility seriously and support the communities and the environment within which we do our business. The Board and Management believe that Corporate Social Responsibility (CSR) programmes should be relevant, impactful, and sustainable. The Board takes overall responsibility for the continued development and implementation of appropriate social and environmental policies of the Corporation. Our focus is on empowerment of youth women and persons with disabilities. The Corporation reaches out to communities along the waterline by connecting them to the pipeline to access safe and cleaner water. During the year under review, the Corporation was involved in one CSR activity, Environmental Conservation. The Corporation relies on the environment extensively for its business, including timber for packaging of Ammo. Besides, the Corporation is involved in tree-planting within its vast land.

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X. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022 which show the state of the Kenya Ordnance Factories Corporation Affairs.

i) Principal Activities

The Corporation principle activities are to:

Manufacture military hardware, machinery and equipment;

Produce defense articles;

Manufacture apparels;

Assemble and manufacture motor vehicles;

Construct roads, water pans, buildings and other structures and carry out food processing.

The Corporation also engages in other activities normally connected with and incidental to the object stated above as the Board may, with approval of the president determine.

ii) Results

The results of the Corporation for the year ended June 30, 2022 are set on page 1: Statement of Profit or Loss and other Comprehensive Income

iii) Directors

The members of the Board of Directors who served during the year are shown at page viii to i

iv) Auditors


The Auditor General is responsible for the statutory audit of the Kenya Ordnance Factories Corporation in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By the Order of the Board

S N KINGA

Major

Secretary to the Board



Sign

3/3/23

Date

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XI. STATEMENT OF DIRECTOR'S RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, requires the Directors to prepare financial statements in respect of that Kenya Ordnance Factories Corporation which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the Corporation for that year. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2022. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period, (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity, (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) Safeguarding the assets of the Corporation, (v) selecting and applying appropriate accounting policies, and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act The Directors are of the opinion that the Corporations financial statements give a true and fair view of the state of Kenya Ordnance Factories Corporation's transactions during the financial year ended June 30, 2022, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

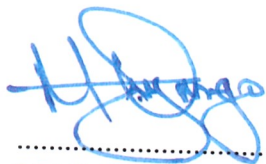
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Statement of Director's Responsibilities (Continued)

Nothing has come to the attention of the Directors to indicate that the Corporation' will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Kenya Ordnance Factories Corporation's financial statements were approved by the Board on _____ 2022 and signed on its behalf by:



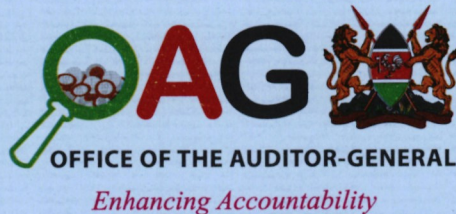
.....
MAJ GEN M K ONG'OYI
Managing Director



.....
BRIG (RTD) J N MUIRURI
Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA ORDNANCE FACTORIES CORPORATION FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Ordnance Factories Corporation set out on pages 1 to 53, which comprise of the statement of financial position

as at 30 June, 2022 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Ordnance Factories Corporation as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the State Corporation Act, Cap 446.

Basis for Qualified Opinion

1. Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.321,146,472 which, as disclosed in Note 22 to the financial statements, includes trade payables of Kshs.277,354,628 relating to prepayment made by the Ministry of Defence for product purchases which have remained unsettled since 2011/2012. Although Management explained that the Corporation and the Ministry of Defence reached an agreement for the Corporation to issue a credit note for the outstanding amount, the balance was still outstanding as at 30 June, 2022.

Further, the trade and other payables balance of Kshs.321,146,472 includes other payables balance of Kshs.39,736,910 which further includes Kshs.23,770,910 relating to money owed to suppliers of raw materials and other supplies to the Food Processing Factory (FPF) for the years 2018/2019 and 2019/2020. No explanation was provided for failure to treat the outstanding payables as first charge in the subsequent years.

In the circumstances, the accuracy and existence of the advance payments and other payables of Kshs.277,354,628 and Kshs.23,770,910 respectively as at 30 June, 2022 could not be confirmed.

2. Long Outstanding Value Added Tax Expenses

The statement of financial position reflects trade and other receivables balance of Kshs.756,927,376 which, as disclosed in Note 19(a) to the financial statements, includes claimable Value Added Tax (VAT) amounting to Kshs.111,957,288.

As previously reported, the claimable VAT of Kshs.111,957,288 includes an amount of Kshs.68,861,381 indicated as due from the Ministry of Defence and Kshs.43,095,907 as VAT erroneously withheld on ammo sales which has been long outstanding.

Further, the trade and other receivable balance of Kshs.756,927,376 include tax recoverable balance of Kshs.12,859,976 related to Value Added Tax (VAT) due from the Kenya Revenue Authority (KRA), which has been outstanding for more than two years.

In the circumstances, the existence and recoverability of the claimable VAT and claimable tax recoverable balances of Kshs.111,957,376 and Kshs.12,859,976 respectively could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Ordnance Factories Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Non-Compliance with the Financial Reporting Template

The Statement of Directors' Responsibilities and the Statement of Financial Position have been signed by the Managing Director (Accounting Officer), the Chief Accountant and a Director contrary to the requirements of the revised annual reporting template of 30 June, 2022 which requires that, the statements are signed by the Managing Director, the Head of Finance and the Chairperson of the Board of Directors.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of Approved Human Resource Policy Instruments

Review of the Human Resource Instruments of the Corporation revealed that the Corporation is applying only two Human Resource Policy Instruments in the management of human capital. There are the Terms and Conditions of Service approved by the Board of Directors in July, 2008 and the Staff Establishment approved by the Board of Directors in September, 2009. However, these Instruments are yet to be approved by the State Corporations Advisory Committee (SCAC) contrary to Circular OP/SCAC.9/21/1/1 of 15 May, 2017.

In the absence of adequate and approved Human Resource Policy Instruments, it has not been possible to confirm how the organization managed the human resources to achieve its core mandate.

2. Work Plan

Evaluation of the Corporation's Board records revealed that the Board of Directors did not develop a work plan for the year under review contrary to Section 1.9 (1) of Mwongozo code of Governance for State Corporations, 2015 which requires Board Members to ensure development of an annual board work plan.

3. Board Committee Meeting Thresholds

Review of the Board of Directors records revealed that, the Board established the Strategic Committee, Finance and General-Purpose Committee and Audit Committee to facilitate the smooth running of the corporation. However, the Board Committee documents provided for audit revealed that the Audit Committee met once (14 December, 2021), the Finance and General-Purpose Committee met twice (25 August, 2021 and 14 December, 2021) and the Strategic Committee met twice (20 August, 2021 and 22 September, 2021) while the full Board met once (27 June, 2022) during the financial year 2021/2022.

Failure by the Board and the Board Committees to hold meetings as per guidelines is a contravention of the requirements of Circular Ref. No. OP/CAB.9/1A of 11 March, 2020 and may erode the governance responsibility entrusted to those charged with governance.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Corporation or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify

my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 April, 2023

KENYA ORDNANCE FACTORIES CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPRENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2022

| DESCRIPTION | Note | 2021-2022 | 2020-2021 |
|---|--------------|----------------------|---------------------|
| | | KSHS | KSHS |
| SALES | 6 | 604,021,182 | 651,672,161 |
| COST OF SALES | 7 | (788,866,022) | (553,862,160) |
| GROSS | | (184,844,840) | (97,810,001) |
| OTHER INCOME | | | |
| FARM & MILLING | 8 | 148,214,307 | 138,310,537 |
| OTHER INCOME | 9 | 394,064,803 | 299,686,221 |
| RECURRENT GRANT | 10 | 494,409,510 | 504,663,849 |
| FAIR VALUE GAIN/(LOSS) ON BIOLOGICAL ASSETS | 11 | 67,387,851 | (28,660,243) |
| ADMINISTRATIVE EXPENSES | 12 | (752,186,647) | (568,445,365) |
| OTHER OPERATING EXPENSES | 12(a) | (812,000) | (812,000) |
| OPERATING (LOSS)/PROFIT | | 166,232,984 | 442,553,000 |
| FINANCE (COST)/INCOME | 13 | 7,301,192 | 3,006,893 |
| WITHHOLDING TAX ON FIXED DEPOSITS | 17 | (1,292,445) | - |
| (LOSS)/PROFIT BEFORE TAX | | 172,241,730 | 445,559,893 |
| PROFIT/ LOSS BEFORE TAX | | 172,241,730 | 445,559,893 |

KENYA ORDNANCE FACTORIES CORPORATION

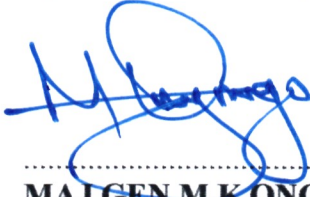
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

| XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022 | | | |
|--|--------------|-----------------------|-----------------------|
| DESCRIPTION | | YEAR ENDED | YEAR ENDED |
| | NOTES | 2021 -2022 | 2020 -2021 |
| | | KSHS | KSHS |
| NON-CURRENT ASSETS | | | |
| PROPERTY PLANT AND EQUIPMENT | 14 | 9,805,081,633 | 10,493,080,779 |
| | | 9,805,081,633 | 10,493,080,779 |
| CURRENT ASSETS | | | |
| INVENTORY | 15 | 995,757,481 | 678,892,212 |
| OPENING INVENTORY ADJUSTMENTS | 15(a) | 495,646,645 | 0.00 |
| BIOLOGICAL STOCKS | 16 | 231,408,009 | 164,020,158 |
| CASH AND BANK BALANCES | 18 | 66,126,,690 | 228,025,118 |
| SHORT TERM DEPOSITS | 18(a) | 335,500,000 | 136,770,559 |
| TRADE AND OTHER RECEIVABLES | 19(a) | 756,927,376 | 787,323,519 |
| TAX RECOVERABLE | 19(a) | 12,859,976 | 12,859,976 |
| | | 2,894,226,177 | 2,007,891,542 |
| TOTAL ASSETS | | 12,699,307,810 | 12,500,972,320 |
| EQUITY | | | |
| GOVERNMENT INVESTMENT | 20 | 5,369,026,514 | 5,211,074,745 |
| REVALUATION | 21 | 6,975,261,655 | 7,663,988,072 |
| REVENUE RESERVES | 21(a) | (115,952,557) | (838,220,619) |
| | | 12,228,335,612 | 12,036,842,198 |
| CURRENT LIABILITIES | | | |
| TRADE AND OTHER PAYABLES | 22 | 321,146,472 | 412,674,354 |
| DEFERRED INCOME | 22(a) | 85,489,354 | 51,455,768- |
| TAX PAYABLE | 17(a) | 64,336,372 | 0.00 |
| TOTAL EQUITY AND LIABILITIES | | 12,699,307,810 | 12,500,972,320 |

KENYA ORDNANCE FACTORIES CORPORATION

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30,
2022**


The Financial Statements were approved by the Board of Directors on 18/01/2023 and signed on its behalf by:



.....
MAJ GEN M K ONG'OYI
Managing Director



.....
CPA JUMA JUDITH
Ag Chief Accountant
ICPAK M/NO:23741



.....
BRIG (Rtd) J N MUIRURI
Director

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30,
2022

| XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022 | | | | |
|---|-------------------------------|----------------------------|------------------------|-----------------------|
| DESCRIPTION | GOVERNMENT INVESTMENTS | REVALUATION RESERVE | REVENUE RESERVE | TOTAL |
| | KSHS | KSHS | KSHS | KSHS |
| BALANCE AS AT 1 st JULY 2020 | 5,169,026,514 | 37,670,513 | (1,283,780,512) | 3,922,916,515 |
| Net (Loss)/Profit for the Year | - | - | 445,559,893 | 445,559,893 |
| Revaluation of Land | - | 7,626,318,000 | - | 7,626,318,000 |
| Capitation/Conditional Grant | 48,544,232 | | | 48,544,232 |
| BALANCE AS AT 30th JUNE 2021 | 5,217,570,746 | 7,663,988,513 | (838,220,619) | 12,043,338,640 |
| BALANCE AS AT 1 JULY 2021 | 5,217,570,746 | 7,663,988,513 | (838,220,619) | 12,043,338,640 |
| Net (Loss)/Profit for the Year | - | - | 172,241,730 | 172,241,730 |
| Adjustment of Capitation FY 20/21 | 51,455,768 | | | 51,455,768 |
| Capitation/Conditional Grant | 100,000,000 | - | | 100,000,000 |
| Adjustment of Re-Valuation of Buildings | - | (17,428,951) | - | (17,428,951) |
| Adjustment of Re-Valuation of Motor vehicles | - | 10,019,652 | - | 10,019,652 |
| Adjustment of Overcharged Re-Valuation on Land | - | (681,318,000) | - | (681,318,000) |
| Adjustment of Overstated Opening balance | - | 441 | - | 441 |
| Adjustment of Understated Inventory | | | 550,026,332 | 550,026,332 |
| BALANCE AS AT 30 JUNE 2022 | 5,369,026,514 | 6,975,261,655 | (115,952,557) | 12,228,335,612 |

Remarks

i)...Adjustment of understated inventories Kshs 550,026,332 relates to previous years balances of stocks erroneously stated. ii)...Adjustment of revaluation of land, buildings and motor vehicles is based on the increases and decreases of the carrying amount of assets which were not recognized in FY 20/21 as per requirements of IAS 16. iii).. .Adjustments for correcting overcharge of land value relates to overstated cost of land in the Fy 20/21)

KENYA ORDNANCE FACTORIES CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

| XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022 | | | |
|---|--------------|--------------------|--------------------|
| DESCRIPTION | NOTES | YEAR ENDED | YEAR ENDED |
| | | 2021 -2022 | 2020-2021 |
| | | KSHS | KSHS |
| Operating Activities | | | |
| (Loss)/Profit before tax | | 172,241,730 | 445,559,893 |
| Adjustments for: | | | |
| Interest Income | 13 | 7,301,192 | (3,006,893) |
| Depreciation | 23 | 114,036,116 | 147,413,940 |
| Increase/Decrease in fair value of Biological Assets | | (67,387,850) | (28,660,243) |
| Changes in working capital: | | | |
| (Increase)/Decrease in Inventory | | (316,865,269) | (241,513,280) |
| (Increase)/Decrease in Debtors and prepayments | | 30,396,143 | (244,339,280) |
| Increase/(Decrease) in Creditors and accruals | | 57,494,296 | (19,504,178) |
| Cash generated from operations | | (17,386,025) | (152,278,178) |
| Tax paid - (Withholding Tax on Deposits) | | 1,292,445 | 126,060 |
| Net Cash (used) generated from operating activities | | (16,093,580) | (152,404,238) |
| Investing activities | | | |
| Purchase of fixed assets | 24 | (105,832,376) | (93,214,132) |
| Interest received | 13 | 7,301,192 | 3,006,893 |
| Net cash used for investing activities | | (98,531,175) | (90,207,239) |
| Financing activities | | | |
| Government Investment | | 100,000,000 | 48,544,232 |
| Adjustment of FY 20/21 | | 51,455,768 | |
| Increase/(Decrease) in cash and cash equivalents | | 36,831,013 | 110,741,231 |
| Movement in cash and cash equivalents | | | |
| Cash and Cash Equivalent at the beginning of the year | | 364,795,677 | 254,054,446 |
| Increase/(Decrease) during the year | | 36,831,013 | 110,741,231 |
| Cash and Cash Equivalent as at 30 th June 2022 | 18 | 401,626,690 | 364,795,677 |

KENYA ORDNANCE FACTORIES CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2022

| Revenue/Expenditure | Original Budget 2021-2022 (b) | Adjustments 2021-2022 (c) | Final Budget 2021-2022 (d) | Actual Comparable 2021-2022 (e) | Performance Difference 2021-2022 (f) | % of utilization (g) | Remarks (h) |
|--|-------------------------------------|---------------------------------|----------------------------------|---------------------------------------|--|-------------------------|---|
| REVENUE STREAM | | | | | | | |
| Ammo Sales | 937,482,000 | -79,000,000 | 858,482,000 | 604,021,182 | -254,460,818 | 70 | Reduced Production due to increased cost of raw materials due to War in Ukraine, & COVID related restrictions Worldwide |
| Bakery Sales | 133,967,302 | - | 133,967,302 | 197,270,915 | 63,303,613 | 147 | Increased demand due to increased number of Recruits intake and increase of demand by DOD affiliated units. |
| Farm and Milling | 102,141,117 | - | 102,141,117 | 148,214,307 | 46,073,190 | 145 | Increased consumption of Maize Meal by DOD affiliated Units |
| KDF Bottled Water | 75,000,000 | - | 75,000,000 | 78,247,157 | 3,247,157 | 104 | Increased demand of Water by our Customers |
| DEFKITCH & GE Products | 16,064,196 | - | 16,064,196 | 7,194,701 | -8,869,495 | 45 | Reduced Demand by the Security Forces |
| Piped Water Sales | 4,800,000 | - | 4,800,000 | 10,283,760 | 5,483,760 | 214 | Increased connectivity of Piped water to neighborhood of the waterline. |
| Interest Income (Funds Under Lien-Bank Deposits) | 3,000,000 | - | 3,000,000 | 7,301,192 | 4,301,192 | 243 | Increased Establishment of LCs for Purchase raw Materials |
| Disposal of General Stores | 300,000 | - | 300,000 | 193,438 | -106,562 | 64 | Reduced Production |
| Food Processing Factory - Gilgil | 71,686,015 | 7,520,000 | 79,206,015 | 100,705,332 | 21,499,317 | 127 | Increased Demand from our Customer- Kenya Army |
| KOFC Grant | 172,000,000 | - | 172,000,000 | 135,000,000 | -37,000,000 | 78 | Reduced Grant by our Donor |
| NATO and WARSAW Funding (ECA-GOK Treasury) | 0 | 1,200,000,000 | 1,200,000,000 | 0 | -1,200,000,000 | 0 | Delay in establishment of framework agreement |

KENYA ORDNANCE FACTORIES CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

| Revenue/Expenditure | Original Budget | Adjustments | Final Budget | Actual Comparable | Performance Difference | % of utilization | Remarks |
|--|----------------------|----------------------|----------------------|----------------------|------------------------|------------------|---|
| REVENUE STREAM | 2021-2022 | 2021-2022 | 2021-2022 | 2021-2022 | 2021-2022 | | |
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
| Farm Mechanization Grant (Phase II) | 200,000,000 | -100,000,000 | 100,000,000 | 100,000,000 | - | 100 | 0.00 |
| Ammo Production Machine Modernisation-CAL | - | 90,000,000 | 90,000,000 | | - | - | Approval denial |
| Opening Balances / Ammo Debtors | 337,194,380 | 434,848,054 | 772,042,434 | 401,626,690 | -370,415,744 | | |
| TOTAL REVENUE | 2,053,635,010 | 1,553,368,054 | 3,607,003,064 | 1,790,058,675 | -1,726,944,389 | 50 | |
| Revenue/Expenditure | Original Budget | Adjustments | Final Budget | Actual Comparable | Performance Difference | | |
| (a) | (b) | (c) | (d) | (e) | (f) | | |
| Materials for Ammo Production | 689,895,294 | 111,509,957 | 801,405,251 | 275,371,679 | 526,033,572 | 34 | Delay in delivery of Raw Material due to War in Ukraine, & COVID related restrictions Worldwide |
| Carbide and Non-Carbide Tools | 35,458,285 | | 35,458,285 | - | 35,458,285 | - | Increased cost of Production |
| Auxiliary Consumables and Chemicals | 19,739,923 | 3,500,000 | 23,239,923 | 20,566,648 | 2,673,275 | 88 | increase of costs of the materials |
| Chemicals for Water & Effluent Treatment | 3,767,510 | | 3,767,510 | 1,507,630 | 2,259,880 | 40 | Reduced production due to frequent water lines problems |
| Purchase of Manuals ,Technical Journals & Newspapers | 860,000 | | 860,000 | 739,220 | 120,780 | 86 | |
| Transport, Shipping & Insurance of Materials | 25,000,000 | -25,000,000 | - | - | - | - | Change in Contract terms |
| Machine Maintenance Spares | 25,572,756 | 1,102,900 | 26,675,656 | 18,639,326 | 8,036,330 | 70 | Lack of availability of Funds |
| Repair and Maintenance of Vehicles | 18,628,150 | 1,500,000 | 20,128,150 | 13,242,899 | 6,885,251 | 66 | Change in Contract terms |

KENYA ORDINANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

| | | | | | | | |
|--|-------------|-------------|-------------|-------------|------------|-----|---|
| Repairs and Maintenance of Buildings | 5,000,000 | -1,000,000 | 4,000,000 | 2,210,769 | 1,789,231 | 55 | Lack of availability of Funds |
| Repairs and Maintenance of Roads | 1,630,000 | | 1,630,000 | 123,650 | 1,506,350 | 8 | |
| ERP Maintenance | 7,445,382 | -5,900,000 | 1,545,382 | - | 1,545,382 | - | Delay in contract establishment |
| Computer Expenses and Software | 4,600,305 | - | 4,600,305 | - | 4,600,305 | - | Lack of funding |
| Renovation of Milling House | 200,000 | - | 200,000 | - | | - | |
| DEFKITCH 2012 Fabrication | 15,226,317 | -10,000,000 | 5,226,317 | 5,741,612 | -515,295 | 110 | |
| Auxiliary Parts for Tools Production | 20,000,000 | | 20,000,000 | - | 20,000,000 | - | Lack of Funding |
| Materials for Tools Production | 4,039,411 | | 4,039,411 | - | 4,039,411 | - | Lack of Funding |
| Bank Charges and Commission | 4,586,667 | | 4,586,667 | 8,601,075 | -4,014,408 | 188 | Increased establishment of LCs |
| Electricity Expenses | 41,800,000 | | 41,800,000 | 33,276,899 | 8,523,101 | 80 | Reduction in production due various reasons |
| Salaries & Allowances (Emoluments) | 325,269,920 | | 325,269,920 | 304,994,236 | 20,275,684 | 94 | Employee reduction |
| Motor Vehicle Operating Expenses (Fuel & Oils) | 44,000,000 | | 44,000,000 | 27,982,576 | 16,017,424 | 64 | |
| Directors Allowances | 2,500,000 | | 2,500,000 | 2,499,019 | 982 | 100 | |
| Travelling and Accommodation | 21,000,000 | -3,000,000 | 18,000,000 | 17,625,621 | 374,379 | 98 | |
| Hospitality & Official Entertainment | 2,440,000 | -700,000 | 1,740,000 | 981,936 | 758,064 | 56 | |
| Telephone, Internet, Television & Newspapers | 3,600,200 | | 3,600,200 | 3,738,488 | -138,288 | 104 | |
| Postal & Courier Expenses | 1,140,000 | -500,000 | 640,000 | 166,987 | 473,013 | 26 | |

KENYA ORDINANCE FACTORIES CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

| | | | | | | | |
|--|------------|------------|------------|------------|------------|-----|---|
| Purchase of Drugs, Dressing and Medical Expenses | 632,500 | | 632,500 | 318,962 | 313,538 | 50 | |
| Purchase of General Stores | 3,481,440 | -1,000,000 | 2,481,440 | 1,063,270 | 1,418,170 | 43 | Management Embraced soft copies usage more than hard copies |
| Payment of Rent and Rates | 2,476,704 | | 2,476,704 | 2,306,000 | 170,704 | 93 | |
| Insurance Expenses | 23,773,759 | -3,000,000 | 20,773,759 | 20,069,595 | 704,164 | 4 | |
| Purchase of Office Equipment's and Computer Expenses | 2,876,000 | -500,000 | 2,376,000 | 4,975,927 | -2,599,927 | 209 | Caused to requirement to switch to online Platforms due COVID restriction |
| Purchase of Domestic and Household Equipment | 2,784,832 | | 2,784,832 | 1,848,153 | 936,679 | 66 | |
| Audit, Legal and Consultancy Services | 2,689,840 | -1,500,000 | 1,189,840 | 812,000 | 377,840 | 68 | |
| Purchase of Stationery Environment | 12,487,740 | -5,000,000 | 7,487,740 | 4,564,289 | 2,923,451 | 61 | Lack Funding |
| Conservancy, Water & Sanitation Services | 900,000 | -300,000 | 600,000 | 590,777 | 9,223 | 98 | |
| Purchase of Uniforms & Protective Gear | 3,011,140 | | 3,011,140 | 846,710 | 2,164,430 | 28 | Lack Funding |
| Purchase of Security and Safety Equipment | 20,000,000 | | 20,000,000 | 252,075 | 19,747,925 | 1 | Lack of Appropriation In Aid Funding |
| Training Expenses | 2,795,400 | | 2,795,400 | 1,056,157 | 1,739,243 | 38 | Lack Funding |
| Tendering and Advertisement | 3,000,000 | -2,000,000 | 1,000,000 | 754,387 | 245,614 | 75 | |
| Clearance, Freight and Charges | 15,000,000 | 5,000,000 | 20,000,000 | 8,472,376 | 11,527,624 | 42 | Delayed arrival of Raw Materials |
| Purchase of Communication Equipment | 911,400 | | 911,400 | 288,000 | 623,400 | 32 | |
| Sales and Marketing Expenses | 5,556,200 | -1,000,000 | 4,556,200 | 93,909 | 4,462,291 | 2 | |
| Farm Expenses | 76,078,300 | | 76,078,300 | 65,228,437 | 10,849,863 | 86 | High costs of Production |

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

| | | | | | | | |
|--|-------------|-------------|-------------|-------------|------------|-----|---|
| Bakery Expenses | 111,442,381 | 54,000,000 | 165,442,381 | 158,006,776 | 7,435,605 | 96 | Increased cost due war in Ukraine |
| Water Bottling Consumables | 46,332,856 | 20,000,000 | 66,332,856 | 43,083,799 | 23,249,057 | 65 | Increased costs of Raw Materials and increased demand |
| Milling Consumables | 7,741,800 | 21,200,000 | 28,941,800 | 6,921,449 | 22,020,351 | 24 | Delayed Tendering |
| Purchase of Laboratory Equipment | 5,000,000 | - | 5,000,000 | 0 | 5,000,000 | 0 | Lack of availability of Funds |
| Quality Assurance Lab Reagents and Equipment Servicing | 5,274,500 | - | 5,274,500 | 1,205,668 | 4,068,832 | 23 | Lack Funding |
| Research and Development (Ammo Boxes) | 3,000,000 | -3,000,000 | - | - | - | - | |
| Ballistic Analyzer (Assorted Accessories) | 1,000,000 | | 1,000,000 | 4,389,060 | -3,389,060 | 439 | Increased prices due to economic changes |
| ISO Transition 9001: 2015 and ISO 22000 | 10,065,000 | -5,000,000 | 5,065,000 | 1,044,000 | 4,021,000 | 21 | |
| FPF (KDF) Gilgil | 121,686,015 | | 137,197,450 | 89,104,866 | 48,092,584 | 65 | High costs of Production and increased demand |
| Farm Mechanization - Machinery | 200,000,000 | | 36,300,000 | 40,593,330 | -4,293,330 | 112 | Due Deferred Income from fy 2021 |
| Purchase of Motor vehicles | 10,000,000 | | 10,000,000 | - | 10,000,000 | - | Lack of Appropriation In Aid Funding |
| 33 KVA Switch Gear | 5,000,000 | | 5,000,000 | - | 5,000,000 | - | Lack of Appropriation In Aid Funding |
| Ammo Production Test Weapons | 1,520,000 | | 1,520,000 | - | 1,520,000 | - | Lack of Appropriation In Aid Funding |
| Replacement of Waterline Equipment's | 9,162,850 | 3,000,000 | 12,162,850 | 2,111,397 | 10,051,453 | 17 | Lack of Appropriation In Aid Funding |
| Grain Silo, | - | 120,000,000 | 120,000,000 | 26,319,064 | | 22 | Nature of Project, requiring payment at Stages |
| Acquisition of EDM by Wire Cut | 10,000,000 | | 10,000,000 | - | 10,000,000 | - | Lack of Appropriation In Aid Funding |
| Profile Projector | 10,000,000 | | 10,000,000 | - | 10,000,000 | - | Lack of Appropriation In Aid Funding |

KENYA ORDNANCE FACTORIES CORPORATION

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| | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------|---|
| Primer Sensitivity Tester (QC) | - | 5,000,000 | 5,000,000 | - | - | - | Lack of Appropriation In Aid Funding |
| NATO and WARSAW Production Line | - | 1,200,000,000 | 1,200,000,000 | - | 1,200,000,000 | - | Delay in establishment of framework agreement |
| Gauging Machine | 50,000,000 | 130,000,000 | 180,000,000 | 36,571,722 | 143,428,278 | 25 | Lack of Appropriation In Aid Funding |
| Pending Bills – FY 2021/2022 | 45,363,037 | 88,405,384 | 133,768,421 | 41,347,204 | 92,421,217 | 31 | |
| Depreciation | 113,692,914 | | 113,692,914 | 114,036,116 | -343,202 | 100 | |
| TOTAL EXPENDITURE | 2,268,136,727 | 1,695,818,241 | 3,815,766,403 | 1,416,285,744 | 1,964,122,548 | 45 | |
| SURPLUS (DEFICIT) FOR THE PERIOD FY 2021/2022 | -214,501,717 | -142,450,187 | -208,763,339 | 373,772,931 | -3,691,066,937 | | |

General Remarks

- i) The budgeted Revenue of kshs 1,200,000,000 was to be funded by Treasury for the New Line which is still under tendering process hence the cause of huge deficit in terms of Revenue generation.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Kenya Ordnance Factories Corporation is established and derives its authority and accountability from Legal Notice No. 125, of 25 July 1997 Cap 446. The entity is wholly owned by Government of Kenya and is domiciled in Kenya. The entity's principal activity is to manufacture Military Hardware, Machinery and Equipment and may engage on incidental activities essential to its object.

2. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IFRS) allows use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Kenya Ordnance Factories Corporation accounting policies. The areas involving a higher degree of judgement or complexity, or where assumption and estimates are significant to the financial statements, are disclosed.

The Financial Statements have been prepared and presented in Kenya Shillings, which is functional and reporting currency of the Kenya Ordnance Factories Corporation.

The Financial Statements have been prepared in accordance with PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

KENYA ORDNANCE FACTORIES CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED

JUNE 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Application of New and Revised International Financial Reporting Standards (IFRS).

i. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022

| Title | Description | Effective Date |
|--|---|--|
| Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020) | The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted. |
| Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020) | The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022. | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted |
| Amendment to IFRS 1 titled Subsidiary as a First-time Adopter | The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity. | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted. |
| Amendment to IFRS 9 titled | The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS | The amendments are effective for annual |

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

| | | |
|--|--|--|
| Fees in the '10 per cent' Test for De-recognition of Financial Liabilities | 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. | periods beginning on or after January 1, 2022. Early application is permitted |
| Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020) | The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS | The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted. |

The above improvements to IFRS Standards had no impact on the Corporation's Financial Statements

KENYA ORDNANCE FACTORIES CORPORATION
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JUNE 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Application of New and Revised International Financial Reporting Standards (IFRS)

- ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.

| Title | Description | Effective Date |
|---|--|--|
| IFRS 17 Insurance Contracts (issued in May 2017) | The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts. | The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted |
| Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020) | The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. | The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. |
| Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February) | The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies | The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. |

KENYA ORDNANCE FACTORIES CORPORATION
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JUNE 30, 2022

| Title | Description | Effective Date |
|---|--|---|
| IFRS 17 Insurance Contracts (issued in May 2017) | The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts. | The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted |
| 2021) | | |
| IAS 12 — Income Taxes | IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. | The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. |
| IAS 8- Accounting Policies, Errors | The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' | The amendments are effective for annual reporting periods |

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

| Title | Description | Effective Date |
|---|--|---|
| IFRS 17 Insurance Contracts (issued in May 2017) | The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts. | The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted |
| and Estimates | and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates. | beginning on or after January 1, 2023. Early adoption is permitted. |

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of potential impact of application of the above, they do not expect that there will be a significant impact on the financial statement.

iii. Early adoption of standards

The Corporation did not early – adopt any new or amended standards in year ended 2021-2022.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Summary of Significant Accounting Policies

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a). Revenue recognition

Revenue is measured based on the consideration to which Kenya Ordnance Factories Corporation expects to be entitled in a contract with a customer. The Corporation recognizes revenue when it transfers control of a product or service to a customer.

- i) Revenue from the sale of goods and services** is recognized in the year in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Grants from National Government** are recognized in the year in which the Kenya Ordnance Factories Corporation actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of Changes in Equities to reflect on the Capital Investment of the Corporation.
- iii) Finance income** comprises interest receivable from bank deposits and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- iv) Other income** is recognized as it accrues.

b). In-kind contributions

In-kind contributions are donations that are made to the Corporation in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Corporation includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts.

c). Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-evaluation less any subsequent accumulated depreciation and impairment losses.

Increases in the carrying amounts of assets arising from re-evaluation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

d). Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use, as guided by the Corporation policy on assets depreciation are:

| | |
|--------------------------------|-------|
| Land | 0 % |
| Buildings and civil works | 1 % |
| Waterline and Civil Works | 1 % |
| Plant, Equipment and machinery | 2.5 % |
| Motor vehicles | 25 % |
| Computers | 30 % |
| Furniture and fittings | 5 % |

The Corporation depreciation charge is charged accordingly and prorated according to time of usage of the asset

KENYA ORDNANCE FACTORIES CORPORATION
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e). Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

f). Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down

g) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the Corporation incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the Corporation expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

h). Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

i). Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

j). Taxation

a. Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

k). Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

l). Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

m). Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

n). Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

o). Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200.00 per employee per month.

p). Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

q). Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary, assets and liabilities denominated in foreign currencies are recognised in profit or loss.

r). Budget information

The original budget for FY 2021-2022 was approved by the Board of Directors on 11th June 2021. Subsequent revisions or additional appropriations were made to the approved budget in

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Kenya Ordnance Factories Corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, Kenya Ordnance did not record additional appropriations during the financial year 2021-2022.

The Kenya Ordnance Factories Corporation budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and as per the statement of financial performance has been presented in the financial statements.

s). Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value.

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

To the extent that an Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

t). Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

u).... Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of Kenya Ordnance Factories Corporation's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

a) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Kenya Ordnance Factories Corporation based its assumptions and estimates on parameters available when the financial statements were prepared.

However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Kenya Ordnance Factories Corporation. Such changes are reflected in the assumptions when they occur.

b) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

KENYA ORDNANCE FACTORIES CORPORATION
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
JUNE 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- has been recognized, the
- The condition of the asset based on the assessment of experts either sourced or employed by Kenya Ordnance Factories Corporation.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets

c.) Provisions: Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the Obligation at the reporting date, and are discounted to present value where the effect is material.

6. Revenue

| Description | 2021-2022 | 2020-2021 |
|---------------------------|--------------------|-----------------------|
| | Kshs | Kshs |
| Assorted Ammunition Sales | 604,021,182 | 651,672,161.00 |
| Total Sales | 604,021,182 | 651,672,161.00 |

7. Cost of Sales

| Description | 2021-2022 | 2020-2021 |
|-----------------------------------|-----------------------|-----------------------|
| | Kshs | Kshs |
| Opening Stocks of finished goods | 334,609,937.00 | 83,392,570.00 |
| Production cost of finished goods | 656,150,949.00 | 805,079,527.00 |
| Closing stock of finished goods | (201,894,864.00) | (334,609,937) |
| Cost of Sales | 788,866,022.00 | 553,862,160.00 |

8. Farm and Milling

| Description | 2021-2022 | 2020-2021 |
|------------------|-----------------------|-----------------------|
| | Kshs | Kshs |
| Farm and Milling | 148,214,307.00 | 138,310,537.00 |
| Total | 148,214,307.00 | 138,310,537.00 |

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9. Other Income

| Description | 2021-2022 | 2020-2021 |
|-----------------------------------|-----------------------|-----------------------|
| | Kshs | Kshs |
| Piped Water | 10,283,760.00 | 4,725,356.34 |
| DEFKITCH 2012- Field Kitchen & GE | 7,194,701.00 | 7,749,110.00 |
| Bottled Water | 78,247,157.00 | 71,869,692.00 |
| Disposal(s) | 193,438.00 | 482,267.00 |
| Bakery Products | 197,270,915.00 | 126,686,916.00 |
| KDF FPF (Dehydrated Vegetables) | 100,705,332.00 | 88,172,880.00 |
| Fees and Fines | 169,500.00 | |
| Total Other Income | 394,064,803.00 | 299,686,221.34 |

10. Grants from National Government

| Description | 2021-2022 | 2020-2021 |
|---|-----------------------|-----------------------|
| | Kshs | Kshs |
| Recurrent grants received | | |
| Current Year Operation Grant-Recurrent Grant | 135,000,000.00 | 181,800,000.00 |
| Other Grants (Salaries and Allowances) | 359,409,510.45 | 322,863,848.70 |
| Total | 494,409,510.45 | 504,663,848.70 |
| Capital grants realised (see note below) | | |
| Farm Mechanization | 100,000,000.00 | 100,000,000.00 |
| Total Government Grant and Subsidies | 594,409,510.45 | 604,663,848.70 |

11. Fair Value Gain/Loss on Biological Assets

| Description | 2021-2022 | 2020-2021 |
|-----------------------------------|-----------------------|-----------------------|
| | Kshs | Kshs |
| Fair Value at the end of the year | 231,408,009.00 | 164,020,158.00 |
| | 231,408,009.00 | 164,020,158.00 |
| Gain/(loss) | 67,387,851.00 | |

KENYA ORDNANCE FACTORIES CORPORATION
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12. Administration Costs

| Description | 2021-2022 | 2020-2021 |
|--|-----------------------|-----------------------|
| | Kshs | Kshs |
| Motor vehicle running expenses | 13,242,899.26 | 4,726,700.54 |
| Petroleum, Oils and Lubricants | 27,982,576.00 | 27,932,837.00 |
| Travelling and accommodation | 17,625,622.00 | 14,470,539.00 |
| Administration salaries and allowances | 199,321,124.00 | 173,482,825.00 |
| Telephone | 3,738,488.00 | 3,753,921.00 |
| Postage | 166,987.00 | |
| Computer expenses | 4,975,927.00 | 2,293,780.00 |
| Official Entertainment | 981,936.80 | 1,345,922.00 |
| Directors Fees | 2,499,018.50 | 2,689,110.00 |
| Protective Gears & Uniforms | 846,710.00 | 1,324,870.00 |
| Printing and Stationery | 4,564,289.00 | 2,494,170.00 |
| Rents and Rates | 2,306,000.00 | 2,371,200.00 |
| General Stores and Replacement of Pumps | 1,063,270.00 | 1,620,494.00 |
| Training | 1,056,157.00 | 430,300.00 |
| Bank charges | 8,601,075.00 | 1,897,002.00 |
| Medical expenses | 318,962.00 | 151,764.00 |
| Electricity | 6,655,380.00 | 6,968,176.00 |
| Depreciation: | | |
| Motor vehicles | 4,810,867.00 | 8,151,974.00 |
| Buildings and civil works | 1,364,000.00 | 1,771,583.00 |
| Furniture and fittings | 256,033.00 | 254,770.00 |
| Waterline and civil works | 953,544.00 | 953,544.00 |
| Computers | 1,717,280.00 | 15,941,354.00 |
| Sales, Marketing and Advertising | 93,909.00 | 110,679.00 |
| Tendering and Advertising | 754,387.00 | 1,667,328.00 |
| Newspapers and periodicals | 739,220.00 | 649,740.00 |
| Domestic and Household Expenses/Office Equipment | 1,848,153.00 | 285,559.00 |
| Insurance | 4,013,919.00 | 1,408,764.00 |
| Building Maintenance | 2,210,769.00 | 2,503,070.00 |
| Roads maintenance | 123,650.00 | |
| Clearing and Transportation Expense | 0.00 | 10,244,032.00 |
| Audit Fees | | 2,436,000.00 |
| ISO Certification | 1,044,000.00 | 217,800.00 |
| Water and Conservancy | 590,777.00 | 209,296.00 |
| Security Expenses | 252,075.00 | 45,900.00 |
| Communication Expenses | 288,000.00 | 107,496.00 |
| Field Kitchen Fabrication | 10,584,980.00 | 4,708,094.00 |
| Farm Expenses | 65,228,437.00 | 67,274,922.00 |
| Bakery Consumables | 176,661,853.00 | 80,820,780.00 |
| Water Bottling Consumables | 57,298,372.00 | 27,095,960.00 |
| Milling Plant Consumables | 6,921,449.00 | 10,570,928.00 |
| KDF FPF Gilgil Expenses | 118,484,554.00 | 83,874,180.00 |
| TOTAL EXPENDITURE | 752,186,646.00 | 569,257,365.00 |

KENYA ORDNANCE FACTORIES CORPORATION
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JUNE 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

12(a) Other Operating Expenses

| Description | 2021-2022 (Kshs) | 2020-2021 (Kshs) |
|--------------------|-------------------------|-------------------------|
| Audit fee | 812,000.00 | 812,000.00 |

13. Finance Income

| Description | 2021-2022 | 2020-2021 |
|------------------------------|---------------------|---------------------|
| | Kshs | Kshs |
| Interest from Fixed Deposits | 7,301,191.90 | 3,006,893.00 |
| Total | 7,301,191.90 | 3,006,893.00 |

Summary of Significant Accounting Policies

i. Nature and purpose of reserves

The Corporation creates and maintains reserves in terms of specific requirements. Corporation states the reserves maintained and appropriate policies adopted. In the year under review, the Corporation in the year under review did not maintain any reserve.

ii. Changes in accounting policies and estimates.

The Corporation recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

iii. Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

vi. Biological Assets

Living plants with probable future economic benefits, which are owned and controlled by the Corporation, are accounted for as biological assets. Biological assets and agricultural produce are measured at their fair value less estimated point of sale cost.

KENYA ORDNANCE FACTORIES CORPORATION

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The fair value of the biological assets and agricultural produce that have an active market is determined using the quoted prices in the market less the costs related to sale of assets. The fair value of the biological assets that do not have an active market is determined based on the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate.

The fair value of the Corporation newly planted crops is estimated by reference cost incurred on the crops up to the reporting date.

KENYA ORDNANCE FACTORIES CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Property Plant and Equipment

| AS AT 30/06/2022 | LAND | BUILDING AND CIVIL WORKS | WATERLINE AND CIVIL WORKS | WORK IN PROGRESS | PLANT EQUIPMENT, MACHINERY | MOTOR VEHICLES | FURNITURE AND FITTINGS | COMPUTERS | TOTAL |
|------------------------------------|---------------|--------------------------|---------------------------|------------------|----------------------------|----------------|------------------------|--------------|----------------|
| | | KSHS | KSHS | KSHS | KSHS | KSHS | KSHS | KSHS | KSHS |
| Depreciation Rate | 0% | 1% | 1% | 0% | 2.5% | 25% | 5% | 30% | |
| 1st JULY 2021 | 7,626,318,000 | 885,791,700 | 476,772,242 | 198,070,222 | 3,015,864,528 | 194,984,721 | 25,477,034 | 53,701,069 | 12,476,979,516 |
| ADJUSTMENT ON CARRING AMOUNT | | (186,362,749) | - | - | - | (125,660,141) | | - | (312,022,890) |
| ADJUSTMENT ON REVALUATION | (681,318,000) | (17,428,951) | | | | 10,019,652 | | | (688,727,299) |
| ADDITIONS | - | - | - | 80,969,638 | - | 40,593,330 | 505,000 | 1,843,250 | 123,911,218 |
| 30th JUNE 2022 | 6,945,000,000 | 682,000,000 | 476,772,242 | 279,039,860 | 3,015,864,528 | 119,937,562 | 25,982,034 | 55,544,319 | 11,600,140,545 |
| DEPRECIATION | | | | | | | | | |
| ACCUMULATED AS AT 01 JULY 2021 | - | 192,982,796 | 106,897,831 | - | 1,486,562,477 | 166,420,012 | 19,075,279 | 61,188,072 | 2,033,126,467 |
| ADJUSTMENT4 | | (189,572,796) | | | | (149,613,594) | | (12,917,282) | (352,103,672) |
| CHARGE FOR THE YEAR | - | 6,820,000 | 4,767,722 | - | 75,396,613 | 24,054,336 | 1,280,164 | 1,717,280 | 114,036,116 |
| ACCUMULATED AS AT 30 JUNE 2022 | - | 10,230,000 | 111,665,553 | - | 1,561,959,090 | 40,860,755 | 20,355,443 | 49,988,070 | 1,795,058,912 |
| NET BOOK VALUE 30 JUNE 2022 | 6,945,000,000 | 671,770,000 | 365,106,689 | 279,039,860 | 1,453,905,438 | 79,076,807 | 5,626,591 | 5,556,249 | 9,805,081,633 |
| NET BOOK VALUE 30 JUNE 2021 | 7,626,318,000 | 692,808,904 | 369,874,411 | 198,070,222 | 1,569,296,781 | 28,564,709 | 6,401,755 | 1,745,997 | 10,493,080,779 |

KENYA ORDNANCE FACTORIES CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

| AS AT 30/06/2021 | LAND | BUILDING AND CIVIL WORKS | WATERLINE AND CIVIL WORKS | WORK IN PROGRESS | PLANT EQUIPMENT, MACHINERY | MOTOR VEHICLES | FURNITURE AND FITTINGS | COMPUTERS | TOTAL |
|------------------------------------|---------------|---------------------------------|----------------------------------|-------------------------|-----------------------------------|-----------------------|-------------------------------|------------------|-----------------------|
| COST | KSHS | KSHS | KSHS | KSHS | KSHS | KSHS | KSHS | KSHS | KSHS |
| Depreciation Rate | 0% | 1% | 1% | 0% | 2.5% | 25% | 5% | 30% | |
| 1st JULY 2020 | 883,553,830 | 476,737,242 | 476,737,242 | 198,070,222 | 3,015,864,528 | 146,440,489 | 25,292,634 | 51,448,169 | 4,778,789,200 |
| VALUATION | - | - | - | - | - | - | - | - | 7,626,318,000 |
| ADDITIONS | - | 2,237,870 | - | - | 39,994,730 | 48,544,232 | 184,400 | 2,252,900 | 93,214,132 |
| 30th JUNE 2021 | 7,626,318,000 | 885,791,700 | 476,772,242 | 198,070,222 | 3,055,859,258 | 194,984,721 | 25,477,034 | 53,701,069 | 12,516,974,246 |
| DEPRECIATION | | | | | | | | | |
| ACCUMULATED AS AT 01 JULY 2021 | - | 184,124,879 | 102,130,108 | - | 1,410,749,252 | 125,660,141 | 17,801,427 | 45,246,718 | 1,885,712,525 |
| CHARGE FOR THE YEAR | - | 8,857,917 | 4,767,722 | - | 75,813,225 | 40,759,870 | 1,273,852 | 15,941,354 | 147,412,940 |
| ACCUMULATED AS AT 30 JUNE 2021 | - | 192,982,796 | 106,897,831 | - | 1,486,562,477 | 166,420,012 | 19,075,279 | 61,188,072 | 2,033,126,467 |
| NET BOOK VALUE 30 JUNE 2021 | 7,626,318,000 | 692,808,904 | 369,874,411 | 198,070,222 | 1,569,296,781 | 28,564,709 | 6,401,755 | 1,745,997 | 10,493,080,779 |
| NET BOOK VALUE 30 JUNE 2019 | - | 699,428,951 | 374,642,134 | 198,070,222 | 1,605,115,276 | 20,780,348 | 7,491,207 | 6,201,451 | 2,911,729,587 |

Remarks:

- i). Depreciation Charge is calculated on apro rata basis.
- ii). Balances brought forward have been adjusted to reflect correct and write off in the ledger.

KENYA ORDNANCE FACTORIES CORPORATION
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JUNE 30, 2022

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Inventories

| Description | 2021-2022 | 2020-2021 |
|-------------------------------|-----------------------|-----------------------|
| | Kshs | Kshs |
| Raw Materials for Ammo | 355,073,095.50 | 184,914,528.38 |
| Chemicals Oils and Lubricants | 34,240,430.45 | 46,483,478.12 |
| Packaging Materials | 9,402,496.56 | - |
| Working Progress | 353,908,566.30 | 97,684,508.50 |
| Finished goods | 201,894,864.00 | 334,609,937.00 |
| Farm and Milling | | 13,783,760.00 |
| Production Scrap | 1,011,250.00 | 1,416,000.00 |
| Bakery | 24,143,916.2 | - |
| Farm | 5,816,509.00 | - |
| Water Bottling | 7,999,524.38 | - |
| Stationery | 557,750.00 | - |
| General Engineering Stores | 1,626,340.00 | - |
| General Store | 82,739.00 | - |
| Total | 995,757,481.39 | 678,892,212.00 |

15 (a) . Inventory Adjustments.

Kshs 495,646,645.00 relates previous years closing balances erroneously stated as per Sock take records.

16. Biological Asset

| Description | 2021-2022 | 2020-2021 |
|--------------------------------|--------------------|-----------------------|
| | Kshs | Kshs |
| Maize | 68,096,644.00 | 66,585,662.00 |
| Assorted Trees | 157491365.00 | 86,184,496.00 |
| Pasture | 5,820,000.00 | 11,250,000.00 |
| Total Biological Assets | 231,408,009 | 164,020,158.00 |

17. WithHolding Tax (WHT) on Fixed Deposits

| Description | Amount (Kshs) | Interest Earned (Kshs) | WHT (Kshs) |
|-----------------------|----------------------|-------------------------------|-------------------|
| Short Term Investment | 654,780,930.00 | 7,301,191.90 | 1,292,445.00 |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

17 (a) . Tax Payable of Kshs 64,336,372 is amount of Corporation on Tax payable on Income Tax of Kshs 445,559,893 FY 2020/2021 Surplus as per computation in the Itax.

18. Cash and Cash Equivalents

| Description | 2021-2022 | 2020-2021 |
|--|-----------------------|-----------------------|
| | Kshs | Kshs |
| Current Account | 63,352,471.41 | 226,671,904.01 |
| Cash in Hand | 1,289,121.89 | 10,940.00 |
| M-Pesa | 1,485,097.13 | 1,342,273.95 |
| Sub -Total | 66,126,690.43 | 228,025,117.96 |
| On Call Deposits - Fixed Deposits | 335,500,000.00 | 136,770,559.30 |
| Total Cash and Cash Equivalents | 401,626,690.43 | 364,795,677.26 |

18 (a) Detailed Analysis of the Cash and Cash Equivalents

| Description | 2021-2022 | 2020-2021 |
|---|-----------------------|-----------------------|
| | Kshs | Kshs |
| a. Current Account | | |
| Kenya Commercial Bank | 27,061,305.72 | 66,613,711.80 |
| Kenya Commercial Bank Dollar Account | 467,655.00 | 403,908.44 |
| Co-operative Bank of Kenya - Main | 12,227,894.45 | 131,450,353.29 |
| Co-operative Bank of Kenya - Bakery Eldoret | 5,439,460.35 | 3,366,066.50 |
| Co-operative Bank of Kenya - FPF Gilgil | 904,207.56 | 19,738,293.76 |
| Equity Bank | 2,435,930.78 | 5,012,922.65 |
| National Bank | 14,816,047.55 | 86,647.57 |
| Sub Total | 63,352,471.41 | 226,671,904.01 |
| b. Fixed Deposit Account | | |
| Kenya Commercial Bank | 335,500,000.00 | 90,281,900.00 |
| Co-operative Bank of Kenya | 0.00 | 46,488,659.30 |
| Sub Total | 335,500,000.00 | 136,770,559.30 |
| Others | | |
| Cash in Hand | 1,289,121.89 | 10,940.00 |
| M-pesa | 1,485,097.13 | 1,342,273.95 |
| Sub Total | 2,774,219.02 | 1,353,213.95 |
| Grand Total | 401,626,690.43 | 364,795,677.26 |

19 (a) Receivables from Exchange Transactions

| Description | 2021 - 2022 | 2020-2021 |
|--------------------------------|----------------|----------------|
| | Kshs | Kshs |
| a. Current Receivables | | |
| Ammunition and Service Debtors | 303,385,386.96 | 536,466,285.15 |
| Other Exchange Debtors | 0.00 | 4,288,880.80 |
| Prepayments | 309,458,130.73 | 84,288,627.05 |

KENYA ORDNANCE FACTORIES CORPORATION
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30, 2022

| | | |
|--|-----------------------|-----------------------|
| Staff Debtors | 3,090,976.00 | 5,204,392.00 |
| Total Current Receivables | 615,934,493.69 | 630,248,185.00 |
| b. Non-Current Receivables | | |
| Ammunition and Service Debtors | 2,394,024.00 | 2,394,024.00 |
| Other Exchange Debtors | 0.00 | 9,010,413.00 |
| Prepayments | 26,641,570.00 | 33,713,609.00 |
| Claimable Value Added Tax | 111,957,288.00 | 111,957,288.00 |
| Total non-current Receivables | 140,992,882 | 157,075,334 |
| Total Trade & Other Receivables | 756,927,375.69 | 787,323,519.00 |
| Tax Recoverable | 12,859,976.00 | 12,859,976.00 |
| Total Receivables | 769,787,351.39 | 800,183,495.00 |

(b) Provision for Doubtful Debts: The recoverability of **Kshs. 124,817,263.64** included under receivables from exchange transactions is doubtful. Although, the Corporation is following up on the long outstanding debts with the Ministry of Defence and Kenya Revenue Authority.

| Description | 2021-2022 | 2020-2021 |
|------------------------------|-----------------------|-----------------------|
| | Kshs | Kshs |
| Long Outstanding Debt | | |
| Kenya Revenue Authority | 12,859,976.00 | 12,859,976.00 |
| Kenya Revenue Authority | 43,095,906.64 | 43,095,906.64 |
| Ministry of Defence | 68,861,381.00 | 68,861,381.00 |
| Total | 124,817,263.64 | 124,817,263.64 |

20. Government Investment: The Government investment of **Kshs 5,369,026,514.00** is the initial investment in form of grants made by the Government of Kenya as per the figure provided by the National Treasury while establishing the Factory in respect to Buildings, Plant and Equipment, Civil Works, Motor Vehicles, Waterline, Power Installation and other additional Capital Investments.

21. Revaluation Surplus: This Value was obtained after re-adjustments of valuation of Motor Vehicles after they were fully depreciated and three parcels of land that were valued by Ministry of Lands and Physical Planning. The fair market rate of **Kshs 6,975,261,655.00**

21 (a). Revenue Reserve is **Kshs (115,952,557.00)** as computed in the Statement of Changes in Equity.

22. Trade and Other Payables from Exchange Transactions

| Description | 2021 - 2022 | 2020 - 2021 |
|------------------------------------|-----------------------|-----------------------|
| | Kshs | Kshs |
| Payments Received in Advance | 277,354,628.00 | 277,354,628.00 |
| Employee Payables (June 2022 PAYE) | 4,054,934.00 | 4,053,076.00 |
| Other Payables | 39,736,910.00 | 127,564,209.76 |
| Contract Retentions | 0.00 | 3,702,440.00 |
| Total at End of the Year | 321,146,472.00 | 412,674,353.76 |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

22 (a) Deferred Income

| Description | 2021-2022 | 2020-2021 |
|---------------------------------|-----------------------|-----------------------|
| | Kshs | Kshs |
| Ministry of Defence | 85,489,354.00 | 51,455,768.00 |
| Total at End of the Year | 85,489,354.00 | 51,455,768.00 |
| Total Payables | 406,635,826.00 | 464,130,121.76 |

22 (b) Deferred Income Movement is as follows;

| Description | 2021-2022 | 2020-2021 |
|---------------------------|----------------------|----------------------|
| | Kshs | Kshs |
| Balance Brought Forward | 51,455,768.00 | 0.00 |
| Additions | 100,000,000.00 | 100,000,000.00 |
| Transfers to Capital Fund | 65,966,414.00 | 48,544,232.00 |
| Balance Carried forward | 85,489,354.00 | 51,455,768.00 |

23. Depreciation and Amortization Expense

| Description | 2021-2022 | 2020-2021 |
|--|-----------------------|-----------------------|
| | Kshs | Kshs |
| Building and Civil Works | 6,820,000.00 | 8,857,917.00 |
| Waterline and Civil Works | 4,767,722.42 | 4,767,722.42 |
| Plant, Equipment and Machinery | 75,396,613.20 | 75,813,225.00 |
| Motor Vehicles | 24,054,336.00 | 40,759,870.00 |
| Furniture and Fittings | 1,280,164.20 | 1,273,852.00 |
| Computers | 1,717,280.25 | 15,941,353.70 |
| Total depreciation and amortization | 114,036,116.00 | 147,413,940.12 |

24. Purchase of Fixed Assets

| Description | 2021-2022 | 2020-2021 |
|---------------------------------------|-----------------------|----------------------|
| | Kshs | Kshs |
| Building and Civil Works | 0.00 | 2,237,870.00 |
| Work in progress | 62,890,786 | 0.00 |
| Waterline and Civil Works | 0.00 | 0.00 |
| Plant Equipment and Machinery | 0.00 | 39,994,730.00 |
| Motor Vehicles | 40,593,330.00 | 48,544,232.00 |
| Furniture and Fittings | 505,000.00 | 184,400.00 |
| Computers | 1,843,250.00 | 2,252,900.00 |
| Total Purchase of Fixed Assets | 105,832,367.00 | 93,214,132.00 |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

25. Bulk Purchase of electricity

| Description | 2021-2022 | 2020-2021 |
|--------------|----------------------|----------------------|
| | Kshs | Kshs |
| Electricity | 33,276,899.00 | 34,840,878.17 |
| Total | 33,276,899.00 | 34,840,878.17 |

26. Related party Transactions

Kenya Ordnance Factories Corporation is a State Corporation managed by the Ministry of Defence and the Government is the only stakeholder with 100% shareholding. The Corporation transacts with all government security agencies. These transactions are carried out at mutually agreed terms and are in the normal course of business.

During the year, the following transactions were entered into with related parties:

Sales to related parties:

| Description | 2021-2022 | 2020-2021 |
|---|-------------------------|-------------------------|
| | Kshs | Kshs |
| Transactions with related parties | | |
| a. Sales to related Parties | | |
| Sale of Goods to the Government Institutions | 1,153,601,484.14 | 1,092,675,812.34 |
| Total | 1,153,601,484.14 | 1,092,675,812.34 |
| b. Grants from the Government | | |
| Grant from Ministry of Defence | 235,000,000.00 | 281,800,000.00 |
| Total | 235,000,000.00 | 281,800,000.00 |
| c. Expenses incurred on behalf of KOFC | | |
| Seconded Personnel Salaries and Allowances | 359,409,510.45 | 322,863,848.70 |
| Total | 359,409,510.45 | 322,863,848.70 |

27. Directors Allowances

| Description | 2021-2022 | 2020-2021 |
|-----------------------------------|---------------------|---------------------|
| | Kshs | Kshs |
| Chairman's Honoraria | 0.00 | 0.00 |
| Directors Emoluments | 2,499,018.50 | 2,689,110.00 |
| Total Directors Allowances | 2,499,018.50 | 2,689,110.00 |

28. Contracted Services

| Description | 2021-2022 | 2020-2021 |
|----------------------------------|----------------------|---------------------|
| | Kshs | Kshs |
| Consultancy | 0.00 | 0.00 |
| Certifications | 0.00 | 217,800.00 |
| Insurance Expenses | 20,069,594.00 | 7,043,819.33 |
| Total contracted services | 20,069,594.00 | 7,261,619.33 |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

29. Cash generated from operations

| Description | 2021-2022 | 2020-2021 |
|---|---------------------|-----------------------|
| | Kshs | Kshs |
| Surplus/Deficit for the year before tax | 172,241,730 | 445,559,893 |
| Adjusted for: | | |
| Finance Income | (7,301,192) | (3,006,893) |
| Depreciation | 114,036,116 | 147,413,940 |
| Increase/Decrease in fair value of biological assets | (67,387,850) | 28,660,243 |
| Working Capital adjustment: | | |
| (Increase)/Decrease in Inventory | (316,865,269) | (241,513,802) |
| (Increase) /Decrease in receivables | 30,396,143 | (244,339,280) |
| Increase/(Decrease) in Creditors and Accruals | 57,494,296 | 19,504,076 |
| Tax Paid | 1,292,445 | 126,060.00 |
| Net Cash (used) Flow from Operating Activities | (16,093,580) | 152,404,238.00 |

30. Financial Instruments and Risk Management

The Kenya Ordnance Factories Corporation activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The entity's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Kenya Ordnance Factories Corporation financial risk management objectives and policies are detailed below:

i. Credit Risk: The entity has exposure to credit risk, which is the risk that will be unable to pay amounts in full, when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the Financial Statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

| Description | Total Amount | Fully Performing | Past Due | Impaired |
|--|-----------------------|-----------------------|-----------------------|-------------|
| | Kshs | Kshs | Kshs | Kshs |
| At 30 June 2022 | | | | |
| Receivables from exchange transactions | 641,879,111.70 | 612,843,517.70 | 29,035,594.00 | 0.00 |
| Receivables from non-exchange Transactions | 127,908,239.30 | 3,090,976.00 | 124,817,264.00 | 0.00 |
| Bank Balances | | | | |
| Total | 769,787,351.00 | 615,934,493.70 | 153,852,858.00 | 0.00 |
| At 30 June 2021 | | | | |
| Receivables from exchange transactions | 675,366,231.00 | 630,248,185.00 | 45,118,046.00 | 0.00 |
| Receivables from non-exchange Transactions | 124,817,263.64 | 0.00 | 124,817,263.64 | 0.00 |
| Bank Balances | 254,054,446.00 | 254,311,452.00 | 0.00 | 0.00 |
| Total | 809,976,314.77 | 670,551,119.77 | 139,682,201.00 | 0.0 |

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The Corporation has significant concentration of credit risk on amounts due from Kenya Revenue Authority.

The board of directors sets the Corporation's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii. Liquidity Risk Management: Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the entity under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| Description | Total Amount | Fully Performing | Past Due | Impaired |
|-------------------------------|-----------------------|-----------------------|-----------------------|-------------|
| | Kshs | Kshs | Kshs | Kshs |
| At 30 June 2022 | | | | |
| Trade Payables | 317,091,538.00 | 39,736,910.00 | 277,354,628.00 | 0.00 |
| Current Portion of Borrowings | 0.00 | 0.00 | 0.00 | 0.00 |
| Provisions | | | | |
| Deferred Income | 85,489,354.00 | 85,489,354.00 | 0.00 | 0.00 |
| Employee Benefit Obligations | 4,054,934.00 | 4,054,934.00 | 0.00 | 0.00 |
| Total | 406,635,826.00 | 129,281,098.00 | 277,354,628.00 | 0.00 |
| At 30 June 2021 | | | | |
| Trade Payables | 408,621,277.86 | 131,266,649.86 | 277,354,628.00 | 0.00 |
| Current Portion of Borrowings | 0.00 | 0.00 | 0.00 | 0.00 |
| Provisions | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred Income | 51,455,768.00 | 0.00 | 0.00 | 0.00 |
| Employee Benefit Obligations | 4,053,076.0 | 4,053,076 | 0.00 | 0.00 |
| Total | 444,626,045.61 | 186,271,417.61 | 277,354,628.00 | 0.00 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ii. **Market risk:** The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The entity's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day- to - day implementation of those policies.

There has been no change to the Kenya Ordnance Factories Corporation exposure to market risks or the manner in which it manages and measures the ris

iv. Capital Risk Management: The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

| Description | 2021-2022 | 2020-2021 |
|---|-----------------------|-----------------------|
| | Kshs | Kshs |
| Government Investments | 5,369,026,514 | 5,217,570,746 |
| Valuation | 6,975,261,655 | 7,663,988,513 |
| Capital Reserve | (115,952,557) | (838,220,619.00) |
| Total Funds: | 12,228,335,612 | 12,043,338,640 |
| | | |
| Total borrowings | | |
| Less: Cash and Bank Balances | 0.00 | 0.00 |
| Net Debt (Excess cash and Cash Equivalents) | 0.00 | 0.00 |
| Gearing | 0.00 | 0.00 |

32. Surplus Remission: In accordance with section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each year.

In line with this legal requirement, the Kenya Ordnance Factories Corporation did not make any surpluses during the Financial Year 2020 and hence no remittance to the Consolidated Fund.

33. Differed Tax Liability: The Corporation had no deferred Tax liability at the year end 30th June 2022.

34. Contingent Liabilities: There are no contingent liabilities for which provisions have not been made in these Financial Statements.

35. Currency: These Financial Statements are presented in Kenya Shillings (Ksh).

36. Event after the reporting period: There are no material non adjusting events after the reporting date.

37. Ultimate and Holding Entity: The Kenya Ordnance Factories Corporation is a State Corporation under the Ministry of Defence. Its ultimate parent is the Government of Kenya.

KENYA ORDNANCE FACTORIES CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| 38. MANUFACTURING ACCOUNT | | |
|--|--------------------|--------------------|
| FOR YEAR ENDED 30 JUNE 2022 | | |
| | YEAR ENDED | YEAR ENDED |
| | 2021-2022 | 2020-2021 |
| | KSHS | KSHS |
| DIRECT COSTS: | | |
| Opening stock of raw materials | 274,544,235 | 367,774,202 |
| Purchases of raw materials | 275,371,679 | 220,420,451 |
| | 549,915,914 | 588,194,653 |
| Less: | | |
| Closing stock of raw materials | (398,716,022) | (274,544,235) |
| Cost of raw materials used | 151,199,892 | 313,650,419 |
| Add: | | |
| Direct labour | 465,082,622 | 404,793,259 |
| Prime cost | 616,282,514 | 718,443,677 |
| FACTORY OVERHEADS: | | |
| Insurance | 16,055,676 | 5,635,055 |
| Electricity | 26,621,519 | 27,872,703 |
| Goods Clearance | 8,472,376 | - |
| Water & Effluent treatment chemicals | 1,507,630 | 1,977,245 |
| Laboratory Chemicals | 1,205,668 | 856,865 |
| Consumables | 20,566,648 | 12,849,451 |
| Machine Spares & Maintenance | 18,639,326 | 12,541,498 |
| Depreciation: | | |
| Plant and machinery | 75,396,613 | 75,813,225 |
| Motor vehicles | 19,243,469 | 32,607,896 |
| Buildings and civil works | 5,456,000 | 7,086,334 |
| Furniture and fittings | 1,024,131 | 1,019,081 |
| Waterline and civil works | 3,814,178 | 3,814,178 |
| | 198,003,235 | 181,216,666 |
| TOTAL | 814,285,748 | 899,660,343 |
| Opening work-in-progress | 195,369,017 | 94,704,201 |
| Opening scrap | 1,416,000 | 7,500,000 |
| Less: | | |
| Closing work-in-progress | (353,908,566) | (195,369,017) |
| Closing scrap | (1,011,250) | (1,416,000) |
| PRODUCTION COST OF FINISHED GOODS | 656,150,949 | 805,079,527 |

Remarks: Goods clearance expense is directly related to the cost of purchase costs of raw materials that previously had been charged to administration costs.

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XIX.APPENDICES
APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal point to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

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| Reference No. | Issue/Observation from Auditor | Management Comments | Focal Point person to resolve the issue | Status | Timeframe |
|---------------|--|--|---|----------|-----------|
| 1.0 | <p>Inconsistency in the Financial Statement The Financial Position as at 30th June 2021 reflects Inventory and Biological assets balances of Kshs 678,892,212 and kshs 164,020,158 respectively all totalling kshs 842,912,370. However, the stock take report provided for audit reflects a total stock ledger balance of kshs 16,876,757,566, resulting in unexplained variance of kshs 16,033,196. Further, the stock take report indicates both inventory and biological assets stock ledger and physical balances of kshs 16,876,757,566 and was not reconciled or explained. In addition, and disclosed in Note 15 to the Financial statements, the inventory balance of kshs 678,892,212 includes closing Work in Progress amount of Kshs 97,684,508 which varies from the closing Work in progress balances of Kshs 195,369,017 reflected under the manufacturing account Note 39 to the financial statements. The resultant difference of kshs 97,684,509 between the two balances was not explained or reconciled. In the circumstances, the accuracy and completeness of inventory and biological assets balances of Kshs 678,892,212 and Kshs 164,020 respectively included in the financial statements could not be confirmed.</p> | <p>The resultant difference of kshs 97,684,509 for closing WIP has been readjusted in FY 21/22 financial Statements with other corresponding changes</p> | FM | Resolved | |

KENYA ORDNANCE FACTORIES CORPORATION

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| | | | | | |
|--------------------------------|--|---|--------------------------------|---------------------|---------------------|
| <p>2 2.1</p> | <p>Property Plant and Equipment The Statement of financial position reflects a balance of Kshs 10,493,080,779 under Property Plant and Equipment which is disclosed in Note 14 to the Financial Statements, includes an amount of Kshs 7,626,318,000 in respect of land. However, the Valuation Report provided for audit reflected a value of kshs 7,627,000,000 in respect of land resulting into a difference 682,000,000 which was not reconciled or explained. In the circumstances the accuracy and completeness of land balances of Kshs 7,626,318,000 as at June 2021 could not be confirmed</p> | <p>The Value of Kshs 7,626,318,000 has been Re-adjusted to reflect the correct figure as per valuation report</p> | <p>FM</p> | <p>Resolved</p> | <p>30 June 2023</p> |
| <p>2.2</p> | <p>Budgetary Control and Performance The Statement of Comparison of Budget and actual amounts reflects final receipts budget and actual on Comparable basis of Kshs 8,465,263,826 and Kshs 1,628,530,258 respectively resulting to under –funding of Kshs 6,836,733,568 or 81%of the Budget. Similarly the Corporation expended Kshs 1,182,970,365 against an approved budget of Kshs 8,464,450,733 resulting to an under-expenditure of kshs 7,281,480,368 or 86% of the Budget. The revenue under-performance and the under-expenditure may have impacted negatively on the achievement of planed goals and objectives of the corporation</p> | <p>This was due to Budgetary projections of the new NATO and WARSAW Ammo line which are DOD projects</p> | <p>KOFC Board of Directors</p> | <p>Not Resolved</p> | <p>30 June 2023</p> |

KENYA ORDNNANCE FACTORIES CORPORATION
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| | | | | |
|------------|--|----|----------|------------|
| 2.3 | <p>Outstanding imprests The Statement of financial position reflects a balance of Kshs 787,323,519 under trade and other receivables which, as disclosed in Note 18(a) to the financial statements, include staff debtors totalling Kshs 5,204,392 out of which an amount of Kshs 465,777 relates to outstanding imprests at 30 June 2021. However, details of the outstanding imp rests issued to various officers were not recorded in the imprest contrary to the provisions of the Regulation 93(4)(c) of the Public Finance Management (National Government) Regulation 2015 which requires the Accounting officer to ensure that details of the applicant for temporary imprest are entered in the register including the amount applied for. The Management was therefore in breach of the law.</p> | FM | Resolved | 30/06/2023 |
|------------|--|----|----------|------------|

KENYA ORDINANCE FACTORIES CORPORATION

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| | | | | | |
|-----|--|--|----|--------------|--|
| 2.4 | <p>Composition of the Board of Directors and Failure to Hold Meetings</p> <p>The Board of Directors are currently constituted does not have member of the Accountancy Profession as required under clause 1.1.6 of the governance principles of the Mwongozo code of State Corporations. Further, the full Board met only twice on 25 September 2020 and 11 June 2021 and the Board Committee Members were not rotated during the financial year under review. This is contrary to the Provisions of the Circular Ref. No. OP/CAB.9/1A of 11 March, 2020 which requires that Committees should hold a minimum of four (4) meetings and a maximum of Six (6) meetings in a financial year. In addition, the Audit Committee met only once on June, 2021 during the financial 2020/2021.</p> <p>The Board of Directors was therefore in breach of Provisions of the circular and the Mwongozo Code of Governance for State Corporations</p> | | MD | Not Resolved | |
|-----|--|--|----|--------------|--|

KENYA ORDNANCE FACTORIES CORPORATION

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| | | | | | |
|-----|---|--|---|--------------|-------------|
| 2.5 | <p>Under-Utilisation of Enterprise Resource Planning (ERP) System</p> <p>During the year under review, the Corporation paid an amount of Kshs 61,480 to a vendor for maintenance during the previous year.</p> <p>The ERP system was installed in 2016 at a cost of Kshs 11,743,560. However, review of the Corporation's operations revealed that the entity relies heavily on manual records in controlling stocks movement and generation of financial reports. Further, the ERP is partially utilized at Headquarters and has not been implemented in the satellite factories.</p> <p>In the Circumstances, the Corporation may not obtain value for money from the expenditure of Kshs. 11,743,560 included on the installation of the computer software system and Kshs 1,082,960 incurred on subsequent maintenance of ERP system. effectively, in all material respects.</p> | | MM | Not Resolved | 30 Jun 2023 |
| 3 | <p>Unresolved Prior Year Matters</p> <p>Property, Plant and Equipment</p> <p>Lack of Detailed Analysis</p> <p>The statement of financial position as at 30 June 2020 reflects property, plant and equipment balance of Kshs.2, 911, 729, 587 and as disclosed in Note 14 to the financial statements. However, detailed analysis in support of the schedule under Note 14 was not provided for audit review.</p> <p>A review of the fixed assets register could not also assist in determining the source of the values attributed to the property plant and equipment. The management</p> | <p>The existing asset register reflects all the various assets heads in block figures obtained from records of the contractor (FNH Herstal of Belgium). These figures are the ones we are currently depreciating to date. However, to enable the updating of the register and to capture all the assets individual value, the Board of Directors, during the 51st Board meeting directed Ministry of Defence (Works Department) in liaison with the Chief Valuer, Ministry of Land</p> | KOFCC Board of Directors and PS Ministry of Defence | Not Resolved | 30 Jun 2023 |

KENYA ORDNANCE FACTORIES CORPORATION

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|-------------------|---|---|---|--|
| | <p>explained that the balances were based on a private audit report. The private audit report was however not provided for audit review.</p> | <p>Housing and Settlement, to value all the Corporation's assets and thereafter update the register and depreciate them accordingly. Once the valuation exercise is concluded, detailed schedules of buildings and civil works; waterline, plant, equipment and machinery, furniture and fittings shall be availed to the auditors for verification.</p> | | |
| <p>3.2</p> | <p>Food Production Factory in Gilgil</p> <p>Information available indicates that the Ministry of Defence constructed and equipped food production factory in Gilgil at a cost of Kshs. 846,228,355. The factory was completed and commissioned in 2017. However, documents in respect of handover of the factory to Kenya Ordnance Factories Corporation were not provided for audit review.</p> <p>Further, a review of the assets register revealed that the factory buildings and equipment had not been taken on charge by the Corporation. Consequently, the legal custodian of the factory assets and their fair value could not be ascertained.</p> | <p>There is no detail of property in regards to Food Processing Factory (FPF) are available at KOFC headquarters and have not been taken in charge in KOFC fixed assets register. A decision on the future operations in terms of its administration under consideration by the government of Kenya and is yet to be communicated to this headquarters. Available data indicate that FPF Assets still belong the Ministry of Defence (MoD).</p> | <p>KOFC Board of Directors and PS Ministry of Defence</p> | <p>30 Jun 2023</p> <p>Not Resolved</p> |
| <p>4</p> | <p>Trade and Other Receivables</p> | | <p>KOFC Board of Directors and PS Ministry of Defence</p> | <p>30 Jun 2022</p> <p>Not Resolved</p> |
| <p>4.1</p> | <p>Long Outstanding Receivables</p> <p>The statement of financial position as at 30 June 2020</p> | | | |

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|-------------------|--|---|------------------|---------------------|--------------------|
| | <p>reflects balances of KShs.542,984,239.00 and Kshs.12,859,976.00 relating to trade and other receivables and tax recoverable, respectively. As disclosed in Note 18 to the financial statements, these balances include receivables totalling Kshs. 139,604,547 which have been outstanding for a long period of time.</p> | | | | |
| <p>4.2</p> | <p>Staff Debtors In addition, disclosed in Note 18 to the financial statements are staff debtors' totalling Kshs. 3,533,533. Included in this balance is a debt of Kshs. 1,473,774 arising from a payment voucher no. 6851 dated 14 June 2019 for Kshs. 2,149,699. The payment was in respect of stipend and other allowances to 269 staff members. The schedule attached had wrong phone numbers of beneficiaries resulting in the whole amount of Kshs. 2,149,699.00 being wired to wrong beneficiaries by the bank on 15 April 2019.</p> <p>As at the time of audit in February 2021, the bank had recovered an amount of Kshs. 675,925 leaving a balance of Kshs. 1,473,774. No explanation was provided for failure to recover the outstanding balance in full.</p> | <p>Staff debtors amounting to Kshs 3,533,533.00 is still outstanding. Part of this amount Kshs 180,000.00 has been recovered from welfare fund and paid fully to public funds. Ksh 2,149,699.00 wired by Kenya Commercial Bank to wrong beneficiaries on 15th April 2019 is being recovered by the bank. So far Kshs 675,925.00 has been recovered and paid to KOFCC. The management is pursuing the bank to immediately refund the balance to the Corporation in the shortest time. It is expected that before the end of this Financial Year 2021/2022 the whole amount will have been received in Corporation's books of account. However, an investigation through a Board of Inquiry has commenced and recommendations on the outcome will be implemented.</p> | <p>MD and FM</p> | <p>Not Resolved</p> | <p>30 Jun 2023</p> |

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| 4.3 | Tax Recoverable | MD / FM | Not Resolved | 30 Jun 2024 |
|-----|--|---|--------------|-------------|
| | <p>Further, as reported in the previous years, disclosed in Note 18 to the financial statements is tax recoverable balance of Kshs.12,859,976 in respect of Value Added Tax (VAT) due from Kenya Revenue Authority (KRA), which has been outstanding for the last 19 years. In the circumstances, the recoverability of Kshs 12,859,976 could not be ascertained.</p> | Collectability of tax recoverable of Kshs 12,859,976.00 is doubtful since it has been outstanding for the last 19 years. This matter is being pursued with the Kenya Revenue Authority with the assistance of DHQ Legal. | | |
| 4.4 | <p>Claimable Value Added Tax</p> <p>As previously reported, disclosed in Note 18 to the financial statements under receivables from exchange transactions is claimable value added tax of Kshs.111,957,288 and which includes an amount of Kshs.73,098,600 indicated as due from Ministry of Defence. However, no documentary was provided for audit verification to ascertain how the amount was arrived at.</p> <p>Information available indicates that the amount of Kshs.73,098,600 includes Kshs.68,861,381 which was ascertained when the Corporation filed a VAT claim of 81,000,000 with the Kenya Revenue Authority (KRA) for the period September 2013 and July 2014 in November 2014, which was however long after the due date.</p> <p>Records reviewed indicated that the input tax on imported raw materials was paid by the Ministry of Defence on behalf of the Corporation using its PIN No P051098785V while the claim was filed by the Corporation using the Corporation PIN No.</p> | Following the termination of the M/S Simiyu consultancy service, during the 57 Board of Directors the principal secretary Ministry of Defence was tasked to follow up on the refund of Kshs 68,861,381. Reference is made to Kenya Revenue Authority letter KRA/DTD/AM&RD/007 dated 27 February 2017 declaring Ksh 36,377,490 was not payable as the claim was submitted late and therefore time barred was not justified by Kenya Revenue Authority (KRA). In the month of February this year, KRA visited the Corporation to conducts audits on compliance and to get more details on claimable VAT. Subsequently, the Chairman Board of Directors engaged the Commissioner KRA on Ministry of Defence matters and KOFC | Not Resolved | 30 Jun 2024 |

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|--|--|---|--------------------------------------|
| <p>P051121081J. However, there was no evidence to indicate that the two entities were jointly registered for VAT refund at that time.</p> <p>Although the management indicated that the above amount was due from the Ministry of Defence, there was no documentary evidence to show that the Ministry was pursuing the claim on behalf of the Corporation from Kenya Revenue Authority and, if the amount was still recoverable.</p> <p>Further, included in the claimable VAT amount of Kshs.111,957,288.00 is an amount of Kshs.36,377,490 for the year 2003. However, a letter Ref No. KRA/DTD/AM&RD/007 dated 22 February 2017 from Kenya Revenue Authority indicated that the withholding VAT refund of Kshs.36,377,490.00 was not payable as the claim was submitted late and therefore time barred. Although, the Corporation had engaged a tax consultant to follow up the claim, there was no indication of the progress made in recovering the claim.</p> <p>Consequently, the recoverability of the claimable VAT amount of Kshs.111,957,288 included under receivables from exchange transactions in the Note 18 to the financial statements is doubtful.</p> | <p>claimable VAT. A task force comprising of Ministry of Defence, KRA and KOFC official was established to address these matters. During the meetings held in the month of March 2021, the meeting chaired by Chief of Legal agreed that KRA to follow up on the two claims and advise the principal on status of payments. KRA officials indicated that the Ministry of Defence to make a claim of Kshs 68 Million since their pin was used during clearance of raw materials. The balance to be confirmed by KRA if the Ministry of Interior made remittances of funds withheld and advice KOFC accordingly.</p> | | |
| <p>5 Trade and Other Payables</p> <p>The statement of financial position as at 30 June 2020 reflects trade and other payables' balance of Kshs.444,626,046 which includes trade payables' of Kshs.</p> | <p>Trade payables of Ksh 277,354,627.00 was paid in advance by the Ministry of Defence for the</p> | <p>KOFC Board of Directors and PS Ministry of Defence</p> | <p>Not Resolved 30 June 2023</p> |

KENYA ORDNANCE FACTORIES CORPORATION

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| <p>277,354,628 as disclosed in Note 21 to the financial statements.</p> <p>As reported in the previous years, the trade payables of Kshs.277, 354,628 relates to prepayment made by the Ministry of Defence for product purchases which have remained unsettled or un-serviced since 2011/2012. Although the management explained that the Corporation and the Ministry of Defence reached an agreement for the Corporation to issue a credit note for the outstanding amount, the agreement was not provided for audit verification.</p> <p>Consequently, the validity, accuracy and completeness of the trade payables figure of Kshs. 277,354,628 included in trade and other payables balance of Kshs.444, 626,046 as at 30 June 2020 could not be ascertained.</p> | <p>initial amount owed to MoD by KOFC was Ksh 317,205,317.00 of which the two parties reached an agreement to convert the amount into a Credit note. Since then and up to the period under review, KOFC has so far supplied Ammo worth Ksh 39,850,689.00 leaving a balance of Ksh 277,354,628.00. However, the agreement is a tall order for KOFC to meet due to the long downtime caused by aged and obsolete machines affecting ammunition production output. The output can only be improved if the proposed new ammunition Production Lines are installed.</p> | | |
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MAJOR GENERAL M K ONG'OYI CBS, 'ndc' 'psc' (K)
Managing Director